









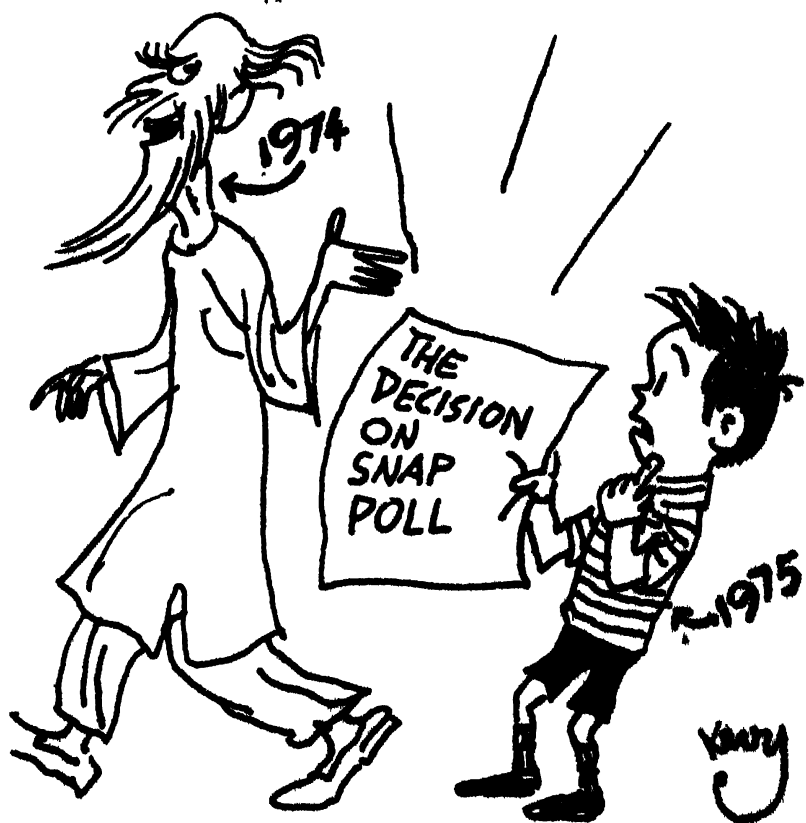




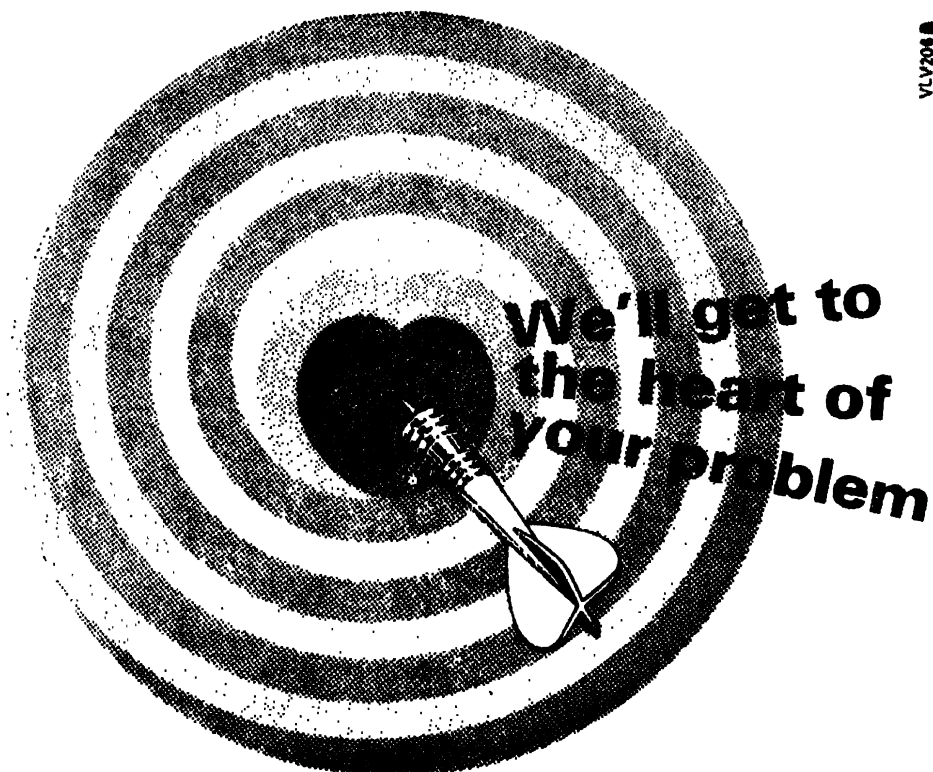
# eastern ECONOMIST

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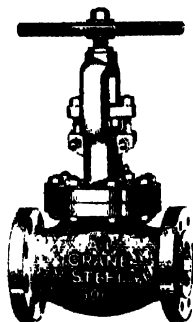
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# Happy new year?

**EVEN AS THE world turned its back on 1974 without regret, it could have had no sense of relief. The year that was** was bad in many ways for a great number of countries including ours, but the new year could be still worse. In some major national economies there is indeed talk of growth picking up around the middle of this year, but it is doubtful that more than a very few of them are in a position to make good on this promise. Even in the case of these possible exceptions the impact of larger world events might well frustrate the contributions of individual national self-discipline or enterprise.

For instance, while it is largely true that West Germany and Japan may be able to stabilize their economies and move out of the slumpflation syndrome in the second quarter of this year provided no grave disturbances take place in international trade, the odds are perhaps less than even against a crisis of that kind developing in world economic activity. Currently grave concern is felt about the immediate future of the Italian and British economies while many observers feel that the French economy too is faced with an increasingly disquieting question mark. What however would decide the issue is whether forecasts of the American economy, currently predicting that its course might be set on a more even keel at least in the second half of this year, are borne out by facts. At the top levels of economic policy-making in Washington, it has still to be decided whether it is inflation which is to be treated as the public enemy number one of the national economy, or whether it is recession that has to be cast in that role. Much should depend on a decision not being delayed and even much more on its being one which is proved to be more right than wrong.

In this context it would be irresponsible on our part to be in any way dogmatic about economic recovery in our country. The safest thing would be to predicate an external environment more unfavourable than favourable and, having done so, to proceed to ensure that our own economic policies do not aggravate our difficulties or accentuate our problems. This would seem to imply that our country is more likely to be on a sound course than on one which is unsound if the management of its economic affairs is orientated more towards an increase in its current production as well as an improvement in its investment situation in the more or less immediate future. The government is paying at least lip sympathy to the cause of an all-out drive to increase agricultural production, but even such a theoretical commitment is still largely lacking where industry is concerned. This has been brought out clearly by the attitude struck by the ministers who addressed the meeting of the Advisory Council on Trade held in New Delhi last week. These spokesmen of the government who are in charge of important economic ministries still seem to persist in the immature attitude that an increase in production has to be specifically thought of only in terms of exports. An approach of this kind might be relevant to the situation in Singapore or Hong Kong, or even in Japan which is excessively dependent on imports of oil and raw materials, but is considerably unaligned to the realities of an economy such as ours which has to resolve its problems essentially in the light of its imperatives of mass domestic consumption and mass domestic employment.

Viewed in this manner, the enthusiasm of Messrs Pai, Chattopadhyaya and company for showing special consideration to the expansion of production for exports is clearly less than adequate for the purposes of a comprehensive policy for stabilizing the country's economy or securing its sufficient expansion. There is in fact a great deal that is clearly absurd in ministerial suggestions that the optimum utilization of existing capacity in industry or the growth of investment and production activities of the larger enterprises should be allowed or assisted only in terms of the needs of production for exports. In practical as well as philosophical terms this attitude is unsustainable and is bound to end up in fringe activities of no substantial significance for the country's problems of employment or economic growth. May be that the government believes that it is politically more prudent to relate the liberalization of the government's economic policies to the non-controversial issue of the urgency and paramount importance of export promotion, but surely these are times when economic statesmanship rather than self-regarding political expediency is called for.

## eastern ECONOMIST

JANUARY 3, 1975

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# Opulent have problems

THE SHIFTS in the balance of payment positions of the developed and developing countries, following the continuing accumulation of surpluses with oil rich nations, have given rise to an unprecedented situation in the world economy. It is now becoming abundantly clear that the lopsided development of the western countries and the promotion of a high level of trade between themselves is proving to be harmful even for the opulent nations. There was no serious criticism when huge reserves were being accumulated by western Europe and Japan as the oil producers were building up only small surpluses. The fast growth of industrial development in the west generated a larger demand for tropical products and other raw materials. But with the increase in the value of exports of tropical products and other raw materials of the developing countries was not in proportion to the rise in prices for manufactured goods.

The deterioration in the terms of trade of developing countries helped the rapid accumulation of reserves with the western countries. The USA and the UK however did not benefit to the same extent as the phenomenal rate of industrial growth and high level of foreign aid in the case of the former and an unstable foundation of the economy of the latter could not help these countries to derive the same advantage as the west European counterparts secured in the past decade. But the increase in the volume of overseas investments of US companies was taking place spectacularly with the result that the wealth of USA inside and outside the country grew steadily. Thus, even serious balance of payment deficits in the past few years and large outflow of gold at official prices, did not affect the US economy severely.

This process of regular increase in reserves of the developed countries has however been rudely disrupted by the inordinate hike in oil prices. The gaping deficits of many industrialised countries whose economies were considered invulnerable until recently have compelled the

institution of measures which have far-reaching effects on the world economy and the direction and volume of international trade. There were rumblings of worldwide recession even in the third quarter of 1974. But the recession had actually set in the closing weeks of the year in the automobile industry in USA, west Europe and Japan.

The greatest casualty of the oil crisis is the automobile industry and in nearly 50 per cent of its assembly plants, Ford of USA has laid off workers and production is not expected to be resumed again until the end of January. Even if these units reopened, the rate of output will be very much lower than that of early 1974 or the latter half of 1973. The slump in production of new cars and commercial vehicles will have serious repercussions on the ancillary industries. It is unlikely that the major producers of automobiles will get

**Eastern Economist  
wishes its readers  
a happy New Year**

the required relief as economic experts in the USA and the UK have been demanding that the consumption of petroleum products has to be discouraged, if the balance of payment deficits are to be reduced or eliminated. There has already been a reduction in the consumption of petroleum products in the USA by three per cent in a year with voluntary restraints. But this drop is not considered adequate and the USA is determined to implement its Project Independence for eliminating dependence on west Asian oil and safeguarding the security of the nation.

The imbalance in the balance of payments of Italy, Japan, France the UK and many other countries has become so fundamental that the governments concerned are not prepared to allow a dip in reserves even for short periods. The immediate difficulties are being overcome with the recycling of oil surpluses of rich nations which are also having a serious problem of disposing of satisfactorily these surpluses. Important countries like

Iran, Saudi Arabia and Kuwait are proposing to spend larger amounts on the development of their regions and increasing also imports of consumer goods. Many schemes have been devised by Saudi Arabia for providing education, electricity, liberal loans for house construction and other schemes. But the surpluses are accumulating so fast that even lending in blocks to Britain or other countries for overcoming their deficits, the grant of credits to the International Monetary Fund, the acquisition of new interests in industrial units, or advance payments to countries like France against contracts for the supply of armament have not helped the full absorption of current surpluses and it has been reported that huge sums have been held by American banks as short-term deposits. These institutions are also unable to decide how the funds should be utilised and with what certainty their redeployment can be attempted.

There are proposals for the formation of special institutions for extending long term credits to developing countries, not necessarily on a government-to-government basis, and taking advantage of the opportunity to raise the level of activity for reducing trade gaps and maintaining world business at a high level. The new institutions, however, are unsure about the extent of risks that can be undertaken on the basis of short term funds of the oil rich nations seeking refuge in industrialised countries. A definite view can obviously be taken only in the light of fresh developments though there is no denying the fact that the surpluses have somehow to be employed and the west has temporarily to reduce its gold reserves and adopt other restrictive measures.

There will probably have to be a mixture of these two approaches as any drastic attempt to correct the balance of payment deficits through negative measures will have a serious impact on the internal economies as is happening now in the USA. For Britain and Italy, it is becoming clear that trading in difference based on imports can upset seriously the calculations of the Treasury or the Board of Trade. It will be unwise to attempt any drastic solutions even while making



efforts to negotiate with the major oil producers for a significant reduction in the cost of crude. The US Treasury's decision to sell two million ounces of gold out of its reserves through public auction in order to meet the needs of its citizens in terms of bullion, with the lifting of the ban on the possession of gold, has given rise to a major question about what others will do with their gold reserves. A policy of reflation will be attempted generally but not necessarily in concert.

The release of two million ounces of gold represents only one per cent of the total reserves held by the US Treasury and what is now happening is only a transfer of a tiny part of these reserves from the custody of the administration to the individual, with the former making a significant profit in the process. There will easily be a gain of \$125 per ounce as the London and New York rates did not decline to below \$170 immediately following the announcement. (Actually, after the initial flurry there was a rally and the new moves of others are awaited by major bullion dealers.) The gain of \$500 millions to the US Treasury may not be significant when its total needs are much larger and the balance of payment deficits is running at an annual rate of seven billion dollars. What immediately is the advantage is the prevention of imports of gold to satisfy the requirements of US citizens.

However, the US move may encourage the adoption of similar procedures for other purposes. In fact, something of this kind has happened even earlier with West Germany giving some assistance to Italy on the basis of the latter's gold reserves. It has been roughly estimated that the Big Ten and Switzerland had gold reserves of \$43 billion at the end of 1973 on the basis of the official price and the appreciation in value of its holdings by nearly \$150 billion can help the holders to overcome the balance of payment gaps for about two years without deteriorating the standard of living of the population of the countries concerned or drastically lowering the level of economic activity. The actual decline in reserves may not be of the dimensions indicated and also the time

gained will be utilised for switching over to other forms of energy or discovering new oil reserves.

The above approach however may not result in any rectification of basic imbalances and what will happen is only the transfer of old surpluses from the industrialised countries to the oil-rich nations and the problems of recycling will still arise. The industrialised countries will of course be in a better position to negotiate with the oil-rich nations and it may even eventually happen that the recycling of the surpluses of the oil producers will result in a new kind of activity for catering for the needs of the third world. The oil rich nations too may have second thoughts about their pricing policies and there may be a deposition to take a total view which will be helpful to them and the consumers.

The main difficulty has arisen only because high level trading has been taking place mainly among the industrialised nations and the gradual devi-

talising effect the slow accumulation of surpluses of the western nations had on the developing countries has not been noticed. With the oil crisis, both the developed and developing countries in deficit in respect of oil requirements, are seriously hurt and as stated earlier there will have to be a better understanding of new problems and greater preparedness of affluent nations to bring about a better balance in international trade and economic activity in the world as a whole.

The latest reports however indicate that the oil-rich nations are disposed to take more serious note of the difficulties created by the undue rise in oil prices and some genuine efforts may be made to overcome the difficulties encountered in maintaining international trade at a high level. Some important developments may thus take place in the first half of 1975 which might facilitate the refixation of exchange parities of important currencies more firmly and also define more clearly the role of gold as a monetary medium.

## Truth about jute prices

THE PROBLEM of ensuring a fair price to jute growers has once again been engaging the serious attention of the government of India as well as of the state governments in the eastern region. The union Commerce ministry has come in for considerable criticism in parliament and outside for its alleged failure to safeguard effectively the interests of the growers. Prof. Chattopadhyaya, the Commerce minister, told the Rajya Sabha on November 27, that though there had been some decline in prices they had not fallen below the minimum support price of Rs. 125 per quintal fixed by the government on the basis of the recommendations of the Agricultural Prices Commission. He added that the decline in prices could not be described as sharp and that the government had received no reports of distress sales. On December 4, the Commerce minister assured the Lok Sabha that the government was fully aware of the problem of the jute

growers and that steps had been taken "to release them from the hands of middlemen". He also said that the Jute Corporation would ultimately take over the entire jute trade and that, with the active assistance of the cooperative structure, it would purchase jute directly from the grower and protect his interest.

But when the Jute Corporation is severely handicapped due to various factors how does the minister expect it to take more and heavier responsibilities and make a success of the scheme? The corporation was set up in 1971 for handling the export, import and internal marketing of jute. The Commerce ministry claimed in its last annual report that the corporation had been able to create "an effective impact on the price of raw jute and maintain it throughout above the minimum statutory level". However, the corporation's activities in recent months have been seriously affected due to lack of sufficient financial resources, administrative deficiencies, and failure of the state governments concerned to extend proper cooperation to it. The corporation has also not suc-

ceeded in enlisting the active support of the jute trade and industry. Last year it opened 30 direct purchase centres and purchased about 700,000 bales of raw jute. This year it had planned to buy about a third of the total crop which was expected to be of the order of 7.5 million bales. This target was lowered to 1.5 millions bales when it was known that the crop would not be more than 4.5 million bales. However, the actual purchase in the five months ended November this year was only about 400,000 bales and it is estimated that the total would not exceed 600,000 bales during the year.

The denial of adequate credit to the corporation has seriously affected its operations. The corporation had asked for a credit of Rs 40 crores from the Reserve Bank against Rs 20 crores that was available last year. But the Reserve Bank has fixed a ceiling of only Rs 18 crores. Prof. Chattopadhyaya told the Lok Sabha on December 4 that his ministry was continuing to persuade the Reserve Bank to increase the bank credit ceiling to the Jute Corporation and also to locate additional bank credit that might be available from the commercial banks. But will the Reserve bank agree? Its survey are reported to have shown that jute prices have not gone below the floor price fixed by the Agricultural Prices Commission. Moreover, the Reserve Bank has directed the commercial banks to restrict credit to the public sector trading organisation. In his letter to the banks issued towards the end of October this year while announcing the new credit policy, Mr Jagannathan, governor of the Reserve Bank, clarified that in the public sector, working capital requirements of manufacturing units for expanding production would receive prior consideration but trading operations such as those of the Cotton Corporation and Jute Corporation could be provided for "only to a limited extent". In the light of this statement, it remains to be seen to what extent the Commerce ministry will be able to persuade the Reserve Bank and the commercial banks to provide more credit to the Jute Corporation.

But how did the Commerce ministry

allow the corporation to expand its staff and increase its expenditure without making certain about the availability of sufficient credit? The corporation at present has a total staff strength of nearly 1,000 persons and its monthly establishment expenses exceed one million rupees of which Rs 800,000 account for wages. This is perhaps in keeping with the pattern of many other public sector corporations whose staff strength bears hardly any relation to the actual volume of work involved. But in the case of the Jute Corporation its high overhead costs affect the price of raw jute. The present overhead cost of the corporation works out to about four rupees per maund which makes it uneconomical for the jute industry to purchase fibre from it.

The financial difficulties of the jute mills have added to the problems of the corporation which is due to receive over Rs 150 million from them. Year after year, the mills have complained about the inadequate availability of credit. In December 1973 the Indian Jute Mills Association said that the total bank credit granted to the industry was of the order of Rs 950 million made up of Rs 500 million against finished goods and stores and Rs 450 million against raw jute stocks, which was grossly insufficient compared to the annual turnover of the industry which was valued at about Rs 3,750 million and the volume of the jute crop valued at Rs 2,250 million. The Association pointed out that notwithstanding "the denial of the sorely-needed financial assistance", mills on their own had gone all-out to buy jute through contracts which helped to stabilise the Calcutta market as well as the agencies. The chairman of the Indian Jute Mills Association said in April this year that "the joint effort of the Jute Corporation of India and the industry for implementing the purchase programme of raw jute in the current season is without parallel in the annals of any industry in this country". Nevertheless, Prof. Chattopadhyaya said in the Rajya Sabha recently that the jute industry had not taken any interest in the plight of the growers and that it had behaved "in an irresponsible way". This criticism is hardly justified in view of the indus-

try's past record and the efforts it is making to improve the production and productivity of raw jute through a five year plan drawn up jointly by the Jute Industry's Research Association and the Commerce ministry.

In April this year Prof. Chattopadhyaya held a meeting in Calcutta to review the jute prices, at which were present the ministers of Agriculture and Co-operation from all the jute producing states, representatives of the trade unions and growers as well as of the Jute Corporation. At this meeting West Bengal's Agriculture minister pointed out that the minimum cost of production of jute was Rs. 168 a quintal and suggested that the support price for raw jute at the primary market should be fixed at around Rs 200 a quintal while the representatives of the trade unions and the growers wanted it to be fixed at between Rs 190 and Rs 250. Complaints were also made at this meeting that the Jute Corporation purchased raw jute from growers at much below the fixed prices and that it often arrived in the field rather late. It is not clear on what basis these figures have been worked out. But the fact that the Reserve Bank's studies and the data collected by the Commerce ministry do not show any evidence of distress sales seems to reveal that the prices are not as low as made out by the critics of the government's jute policy. It is also relevant to note that the index number of wholesale prices of raw jute (1961-62=100) went up from an average of 144 in 1969-70 to 181 in September 1974.

Prof. Chattopadhyaya admitted in the Lok Sabha that it was important to keep the prices of Indian jute good competitive. He said that while considering remunerative prices to the growers, the government had to take into account their impact on the ultimate products of the industry. He said, "We cannot afford to undermine the competitiveness of our jute production especially in the context of the fact that the expected increase in crude prices, has not come about". He disclosed that because of the uncompetitive prices,

here had been a substantial decline in the demand for products like carpet backing. While therefore the interests of growers have to be protected and

promoted by offering them a fair price no less important is the need to refrain from measures which will inflate the industry's cost of production.

## Dry farming in Rajasthan

THE MONSOON of 1974 was rather unkind to Rajasthan as it was to several other states in the country. It has been estimated that the rainfall was less than half of the normal in eight western districts of the state. In the remaining 18 districts so it was nearly 25 per cent below the normal. Besides, the periodicity and spread of rainfall were unfavourable for the kharif crop. Consequently, the state faced a serious situation caused by drought and scarcity and it approached the centre for relief through labour intensive works and acceleration of schemes in agriculture, irrigation and power sectors.

This failure in agriculture due to lack of rainfall makes it essential that the state goes in a big way for a programme of dry land farming through soil conservation. Unfortunately Rajasthan has neglected this aspect of agriculture. It was only the fifth five-year Plan that proposes to improve and strengthen the capability of the department of Agriculture to survey and design projects scientifically, as well as to attract bank loans for soil conservation works. The soil conservation programme is to be taken up during the year 1975-76 over an area of 40,000 hectares and a sum of 10 lakh rupees proposed to meet the subsidy component of the programme. An additional provision of two lakh rupees is also being made to take up a few schemes through the assistance to Agricultural Refinance Corporation. Considering the gross cropped area of the state at around 16.7 million hectares, out of which the area under irrigation is around 2.7 million hectares, the proposed area for soil conservation is grossly insignificant.

Dry land farming has been successfully taken up in arid regions of the world during the last 30 years and the

programme is largely based on moisture conservation and moisture utilisation in semi-arid regions which have near marginal levels of soil moisture. With proper dry land farming techniques even drought years can yield sufficient returns to cover the cost of production and make the area self-sufficient. But the technique requires a package of practices to prevent crop failures.

The broad strategy of dry land farming requires conservation of water and prevention of its run off. This is achieved by creating a surface condition that holds water until it has had time to infiltrate. This can be done by mechanical and biological means. To prevent surface run-off, construction of contour bunds is necessary. This practice also prevents soil erosion and causes silting of catchment basins. It has been estimated that in semi-arid regions in this country contour bunding alone can raise crop yields by at least 25 per cent.

The provision of a mulch cover is another essential element of dry land farming. Crop refuse has to be left on the fields, preferably standing. A trash mulch cover slows down air movement at the soil surface, thereby reducing the evaporation of moisture. The provision of mulch cover, however, does not permit the cutting of crop refuse for animal feed.

It may be added that the crops which are fast maturing, deep rooted and have an ability to withstand low moisture conditions have to be selected for dry land farming. Crops such as jowar, bajra, oilseeds, fast maturing varieties of cotton and fast maturing pulses are suitable for cultivation. Dry land farming also requires judicious use of fertilizers because farm yard manure, which provides mainly nitrogen and potash, is of little value in semi-arid tropical soils. Fertilizer use has to be carefully related to water availability and a relatively lower than normal quantity is used.

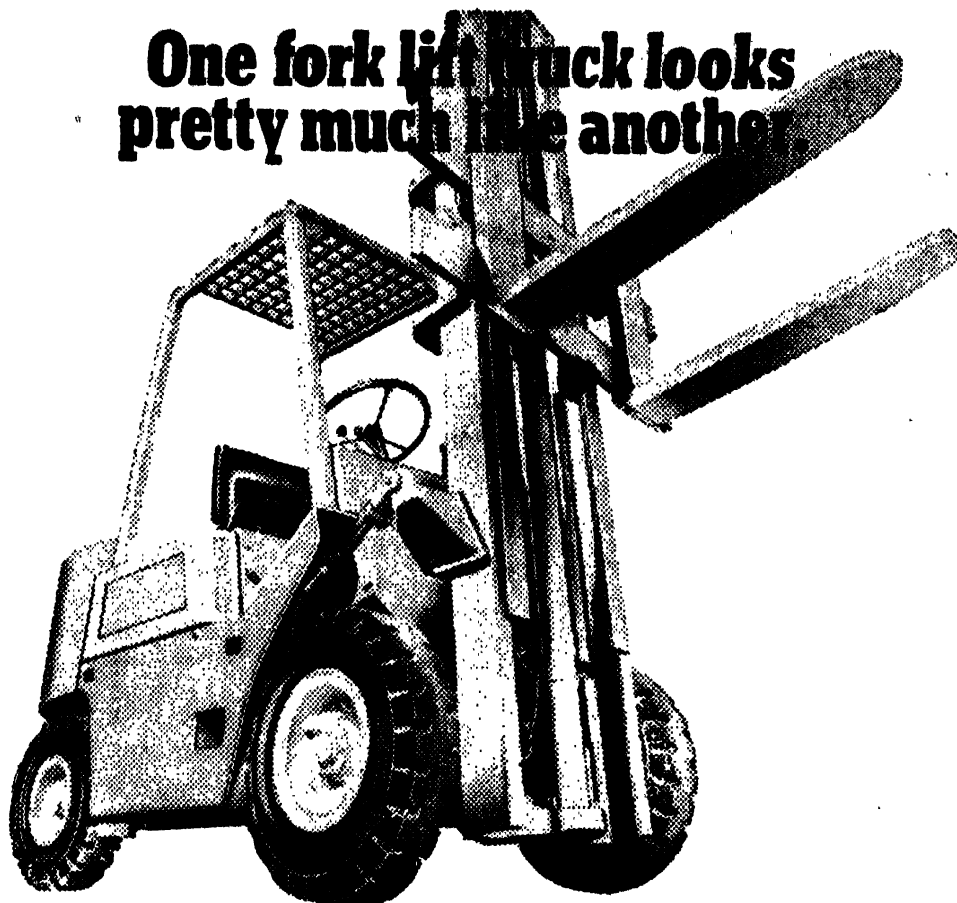
Rajasthan's soils are subject to very

heavy moisture loss by evaporation, and run off which not only results in the loss of water and good top soil, but also the loss of valuable soil nutrients. Measures to conserve soil, therefore, are significant. The strategy might vary in different areas of the state depending upon the type of land. Canal command areas, for instance, will involve primarily land levelling operations and the lining of water channels. In the semi-arid regions the programme will require the construction of contour bunds to hold water on the surface. In hill and ravine areas graded contour bunds will be necessary.

Soil and moisture conservation during the last few years has mainly been undertaken in the state on rain-fed lands, chiefly through funds provided for distress relief. Such programme envisaged a subsidy component and the landowners were expected to meet part of the cost. The soil conservation programme, therefore, has had only a limited coverage. Lack of capacity in the district organisations to undertake topographical surveys and execute physical works on a scientific basis was therefore evident.

It may also be pointed out that soil conservation has essentially been left to be taken up under special provisions made for development of backward areas, under drought prone area programme or under centrally sponsored schemes. For instance, soil conservation and topographical survey of potential areas are to be initiated under the development of backward areas in the districts of Jodhpur, Nagour, Jaisalmer, Barmer, Bikaner, Churu, Dungarpur and Banswara. Similarly the drought prone area programmes include a programme of dry farming which will be initiated in potential districts. Soil conservation work is also to be undertaken under centrally sponsored schemes in river valleys of Chambal, Dantiwara and Kadana. It may, however, be stressed that such fragmented operations of this important programme cannot achieve rapid results. Under the present circumstances, it is evident that Rajasthan should provide high priority to dry land farming and it should be taken up earnestly during the fifth five-year Plan.

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# Energy: problems and prospects

K. K. Birla

WE ARE meeting under the lengthening shadow of what has come to be called the "World Energy Crisis". In our own country, however, we have been living with power crisis for more than three years now. We have been plagued by scarcity of power in different parts of the country including coal-belt areas. We can understand the break-down of hydro-electric plants following failure of rains, but it passes my understanding as to why thermal plants should not run to their full capacity! Sometimes we hear that the problem arises because of the break-down in transport. The lack of balance between coal supplies and wagon availability has been with us for so long. When we have wagons, we do not seem to have coal. When we have coal, there is shortage of wagons. There is considerable truth in the criticism that our power planning has been defective, installation of power generating capacity well below targets, operation of these plants and their maintenance so unsatisfactory as to bring down plant utilisation to less than 50 per cent.

## Efficient plants

My point gains both relevance and significance in terms of experience. There are specific instances to show that under better management, a number of power plants are working efficiently. I am sure that the chairmen of the electricity boards who are present here will bear out my proposition. They must be having their own difficulties in implementing effective measures or for that matter in the normal running of their plants. I feel that if we exchange our thoughts freely and frankly and appreciate each other's difficulties, a way can be found to resolve them to the benefit of the nation.

Power generation is a public utility. It is unfortunate that many state electricity boards are not financially well off and they have to depend heavily on borrowings from the state governments. My suggestion is that these boards should be converted into power corporations with greater autonomy in their

Text of the speech made  
at the Conference on Energy  
held on December 18, 1974, in  
New Delhi.

working and with wider sources of funds to finance their development projects by borrowing from public and financial institutions. In one sense the problem reduces itself to one of management. If government feels that such management expertise as has been developed in the private sector would be useful, I may assure that our services will be willingly offered.

The international oil crisis and the hike in oil prices have added another dimension to our energy problem. The cost at which imported crude oil will be available to meet our growing energy requirements has upset our foreign exchange budgeting and has necessitated adjustments in using various sources of energy supply. Thus, there would be

fundamental problems of energy availability in the years to come unless steps are taken immediately to increase energy supplies, rationalise consumption and lay plans for effective utilisation of domestic resources.

## significant shift

Over the years, there has been significant shift all the world over in the use of solid fuels to liquid fuels. Some 50 years ago, the total world consumption of solid fuels was 83 per cent as against 13.3 per cent for liquid fuels, 3.2 per cent for natural gas and 0.7 per cent for hydel power. By 1968, the share of solid fuels came down to 36.7 per cent whereas that of liquid fuels went up to 42.8 per cent, of natural gas to 18.3 per cent and that of hydel power to 2.1 per cent. The replacement of solid fuels such as coal by oil was particularly prominent in the US and Europe. The major incentive for this change came from the booming of world supplies of crude oil from new sources in the USA, in west Asia and in the USSR. At the same time, technical factors, cost of handling and the fall in the price of oil

## *Eastern Economist 30 Years Ago*

JAN. 5, 1945

With the unprecedented inflation of currency during the previous twelve months and the expectation of unprecedented dividends in the near future, the opening of the new year found the stock exchanges stoutly declining to allow their optimism to be overclouded by the premature shadows of the inevitable budget, now only two months ahead. The markets moved up in an unbroken curve till, about the first week-end of February, Tata Deferreds raised themselves from the opening year level of Rs. 1960 to Rs 2170; Ordinaries from Rs 396 to Rs 430; Dyeings from Rs 2,050 to Rs 2,170; Centuries from Rs 890 to Rs 1,175; and Kohinoors from Rs 640 to Rs 730. The precau-

tionary tendency to seek shelter in the protected asylum of native states from the dimly apprehended swoop of the Indian Finance member did not find much expression in the prices of native State scrips as most of them had already reached very high levels by the close of the previous year. In the textile group, Osmanshabis crawled from Rs 360 to Rs 376, Raza Textiles from Rs 100 to Rs 121, while Azamjabis hesitated about the level of Rs 655-700. The only exception was the spectacular rise of the ordinarily quiet Minervas from the opening year level of Rs 225 to Rs 327 by the first week of February.

## POINTS OF VIEW

relatively to coal in the 1950s and 1960s have resulted in a preference for liquid fuels at the cost of solid fuels.

In our country, the demand for energy has grown rapidly particularly since the beginning of the planning, becoming nearly double in the last two decades. There has also been a significant shift towards commercial energy. In 1953-54, out of the total energy consumed, the share of commercial fuels was 32 per cent and that of non-commercial fuels 68 per cent. In 1970-71, their respective shares changed to 52 per cent and 48 per cent respectively. Between this period, the share of coal declined from 15.4 per cent to 13.6 per cent while that of oil went up from 12.8 per cent to 25.8 per cent and of electricity from 4.1 per cent to 12.9 per cent. This trend in commercial energy consumption has continued even in later years.

### sources of power

Let me now examine the question as to how our country is placed in respect of energy resources. We have huge coal deposits which on present estimate are likely to last for about 150-200 years. There are already two atomic power plants and another has been planned in the fifth Plan. We have considerable hydel power potential which has not been fully tapped, hardly 17 per cent of which is being utilised so far for generating electricity. We are already producing seven million tonnes of crude oil and some ambitious plans are in hand in this behalf. It is said that promising results have emerged from our drilling operations in the Bombay High. We are all very much interested to have further particulars in this behalf, as also the plans of government to step up off-shore oil drilling as well as the plans to explore and exploit natural gas. I feel that if the country has to be industrialised in the manner we want, our total energy requirement is certain to grow very fast and to meet this requirement, we will have to exploit our energy resources fully.

We are not able to produce more coal and transport it to consuming centres. Our power plants are not working efficiently and there has been delay in installing new capacity. The hike in oil prices has created an entirely new situation. Therefore, a spate of decisions will have to be taken at government, board room and works manager level on how to optimise the efficient use of energy both primary and secondary. The

basic question is whether we have been using the right form of energy in the best possible way. What will be the roles of coal, oil, nuclear and water power as primary fuels in the overall economy and their relative merits in electricity generation? What is the scope of substitution of one fuel by another on techno-economic considerations and improve the efficiency of various fuel uses? What should be our policy for conservation and effective utilisation of commercial energy resources? What is the scope for Gobar gas which has evoked wide public interest in the context of fuel and fertilizer shortage?

These issues have, no doubt, been examined by the Fuel Policy Committee appointed by government in 1970. Its recommendations have now been submitted to government. Similar committees were set up in the past and many valuable suggestions were made. But these recommendations remain more or less unimplemented. I, therefore, suggest that the recommendations of the Fuel Policy Committee be put forward for public debate: and on that basis a national energy policy be framed. A separate National Energy Commission be constituted to implement various aims and objectives of the National Energy Policy.

I welcome the recently constituted Cabinet Sub-Committee on Energy under the chairmanship of Mr. K. D. Malaviya, minister for Petroleum and Chemicals,

for effective coordination of all schemes connected with the development of energy resources such as oil, coal and power. I am sure that under the guidance of the prime minister, Mr. Malaviya and Mr. Pant, this sub-committee will be able to sort out the various problems facing the country in the energy sector.

The increasing cost of fuel has been worrying the consumers. The recent increase of Rs 100 per month in the emoluments of coal mine workers will involve an additional expenditure of about Rs 100 crores a year. Inevitably the burden will be passed on to the consumer who is already groaning under the impact of successive rise in prices and it will have a snow-ball effect. Between January 1973 and August 1974 the index for the price of coal has already shot up by about 50 per cent. In addition there have been sharp increases in transportation, handling and other charges. I would urge the government of India to examine such issues. Otherwise it will be difficult to check inflation as a result of increases in fuel costs.

In fairness, I must add here that the working of some power plants in the public sector has recently registered improvement. And I trust that this trend will continue and become universal in the near future. In conclusion, I would like to assure the government on behalf of the industry our full and wholehearted cooperation to combat the present energy crisis that the country is faced with.

## RECORDS AND STATISTICS

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# Is crop insurance feasible?

M. R. Meher

SCHEME of protecting the farmer against loss or damage to crop on account of drought, floods, etc., by crop insurance is mooted in the fifties. At present when there is widespread failure of rains and crops, resort is had to *ad hoc* relief and relief works. With the larger allocation to states under the sixth Finance Commission's recommendations, the states are expected to manage their rural economies without grants from the centre in the case of calamities caused by scarcity. Uncertainty of the crop would arise not only from failure of rains and excessive rains but also from damage from pests and plant diseases. It has been said that a crop insurance scheme would not only ensure security for the farmer but also encourage the farmer to keep marginal lands under cultivation.

## Drought prone areas

There are difficulties in the proposal for protecting the farmer by a scheme of crop insurance. Is a viable scheme to be administered by a crop insurance corporation covering the whole of India or could such schemes be region-wise? There is no year in which some parts of the country do not suffer from drought or floods. There are also some areas which are drought-prone. Areas which have satisfactory irrigation facilities are less prone to scarcity. On what basis are calculations of insurance premiums to be worked out? If premiums are to be worked out on an actuarial basis they would have to be graded according to the soil in the region, the crops grown, whether irrigation is available or not, whether the area is drought-prone, etc. The Maharashtra Economic Development Council in its recent publication, "Droughts in Maharashtra" has said that crop insurance is absolutely necessary for Maharashtra and that, to begin with, the scheme may be introduced in the areas identified as drought prone areas.

It is true that areas which are dependent on timely rains for sowing and reaping and districts which are drought prone need the most protection of the farmer and there is the necessity also of keeping alive cattle in a period of drought when there is shortage of fodder and water. But on an actuarial basis the highest premiums would have to be on

such areas as also on areas prone to floods and the premiums would be beyond the capacity of the average farmer to pay. Any such schemes for these areas would have to be subsidised by the government. On the other hand, in regions where there is assured supply of water or farmers have been able to use modern technology and grow high yielding varieties the need for insurance would be less.

According to one economist, in a scheme of crop insurance, in the initial stage premiums would have to be on the low side so as to be within the capacity of the farmer, particularly the small farmer keeping marginal lands under cultivation. It might be mentioned that the number of small and marginal farmers in drought prone areas of the country alone is estimated to be about five million. According to one economist, in the initial stages, the state may have to subsidise insurance premiums to the extent of as much as 75 per cent. It is doubtful whether such a system of insurance would be viable and not degenerate into a cheap method of obtaining subsidy from the government. It has been suggested that for such a scheme to be viable it would not be feasible to give full protection against loss of crop due to natural causes and that the insurance should be limited to sixty or seventy per cent, or only fifty per cent of the normal yield, e.g., if the crop is insured to the extent of 70 per cent of the average yield, compensation should be payable only when the loss exceeds 30 per cent of the average yield, and losses up to that per cent should not be compensated.

## Other difficulties

There are other difficulties in the way of crop insurance. Premiums would have to be calculated and worked out on the basis of the average yield of particular crops for a number of previous years. Reliable data on these are not easily available. In some states accurate land records are also not available. There is the problem of valuation caused by the fact that the production on land of a particular crop is not constant. The area under various crops depends not only on the nature of the soil but the farmer's

choice between different types of food crops, as between food and cash crops. Care will also have to be taken by the insurer that the farmer uses due diligence in producing the insured crop. A very large number of field inspectors would be required for conducting the insurance scheme, assessing of damage, etc. There would also be problems of dealing with scattered and small agricultural holdings and a variety of agricultural practices, crop seasons and crop rotation. Illiteracy and poverty of the small farmer would be another problem in the working of a crop insurance scheme.

It is understood that the central government has given clearance to the General Insurance Corporation of India for introducing a crop insurance scheme, initially in six states, for two types of crops, viz., cotton and groundnut. When the scheme is introduced, its working can be watched and if successful, it can be extended later having regard to the experience gained.

## Development strategy

The draft of the fifth Plan does not say anything about crop insurance. The thrust of development strategy for drought prone areas in the draft Plan consists of improvement in irrigation facilities, soil conservation measures such as contour bunding, furrowing, terracing and levelling, improvement in agronomic practices, particularly dry farming technology, conservation of soil moisture, promotion of a suitable system of intercropping, livestock development, provisions for the benefit of the small farmers, marginal farmers and agricultural labour.

As regards agriculture in general the supply to farmers of necessary inputs such as seeds and pesticides, as also facilities for cheap credit and other outlays for increasing agricultural production proposed in the draft of the fifth Plan offer better prospects for improvement of production of agricultural lands than schemes of crop insurance which would require heavy subsidisation by the state and would also be difficult to administer. As regards protection against floods there are more suitable ways of preventing or reducing loss from floods by measures such as protective bunds and check dams.



# Flow of resources to the developing world

Josselyn Hennessy

London

## I The 1973 Record

THERE WAS a decline in development aid in 1973 as measured by the percentage of GNP devoted to Official Development Assistance (ODA) by members of OECD's Development Assistance Committee (DAC). The percentage is probably the best indication of trends since it avoids distortions caused by changes in exchange rates and prices. It was 0.30 per cent in 1973 as against 0.34 per cent in 1972 for members of OECD's Development Assistance Committee as a group. The DAC uses the word aid to refer only to Official Development Assistance, which consists of grants and loans at concessional terms by the official sector for the purpose of fostering recipient countries' development and welfare.

The total flow of resources comprises ODA, grants by private voluntary agencies

members showed an increase of nine per cent in 1973 from \$8,700 million to the record figure of \$9,400 million, but if changes in exchange rates and price increase are taken into account, it fell by some six per cent. In 1973 DAO amounted to about \$4.80 per person living in developing countries, a decline of about 30 per cent in real terms compared to ten years ago.

DAC members as a whole moved away from the 0.7 per cent of GNP target which the United Nations has recommended that each donor achieve by 1975. DAC Members have taken various positions with regard to this target. Four—the Netherlands, Belgium, Sweden and Norway—have accepted it without reservations; eight—Australia, Denmark, France, Canada, West Germany, Japan, New Zealand and the United Kingdom have accepted a date after 1975,

the United States—outweighed this progress, and the DAC average declined. In particular, the United States, the largest donor (32 per cent of DAC members' combines ODA in 1973), recorded a fall in its provision of ODA, not only in relation to GNP, but also in absolute value.

There was a slight decline in the of grants in ODA (including grants to multilateral agencies) which slipped back from the record level of 72 per cent in 1972 to 71 per cent in 1973. Bilateral grants increased by only 2.6 per cent in nominal terms, and fell to less than half of the total outflow of ODA (48 per cent in 1973, compared to 50 per cent in 1972). Their relative stagnation was due mainly to lower expenditures on bilateral food and programme aid.

## nominal increase

As regards the other main component of ODA, contributions to multilateral agencies (24 per cent of ODA in 1973) rose in nominal terms by 18 per cent to \$2,200 million, an increase of about three per cent in real terms. Bilateral loans roughly maintained their share of 28 per cent in total ODA. As gross lending rose in 1973, the relative stagnation of new lending (which was about the

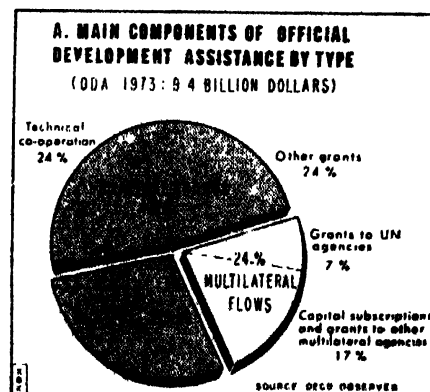
# WINDOW ON THE WORLD

and loans, credits and investment at market terms. This last group of transactions favour growth and development and they are taken into account, but because they are at market terms, the word aid is not appropriate when referring to them or any total that includes them.

In US dollar terms, the total Official Development Assistance (ODA) of DAC

and five have not subscribed to it at all.

Eight DAC members achieved some progress in their aid effort as measured in terms of the ODA to GNP ratio—Austria, Denmark, West Germany, Italy, Japan, Norway, New Zealand and Sweden. But a fall in this ratio for some of the major donors—France, the Netherlands, the United Kingdom and



1. THE FIGURES IN ALL THE CHARTS ARE TAKEN FROM THE RECORD AS OF JULY 20. FINAL FIGURES WILL BE PRINTED IN THE REPORT OF THE DAC CHAIRMAN IN DECEMBER



ame in real terms as in 1972) largely reflects increased amortisation backlogs.

Wheat prices more than doubled between 1972 and 1973, and other food prices rose substantially. According to preliminary data, food aid shipments dropped sharply. Expressed in dollars, bilateral food aid grants decreased slightly, and the dollar value of food aid channelled multilaterally by DAC members through the United Nations World Food Programme and the Commission of the European Communities remained virtually unchanged. Food aid financed out of the budget of the European Community was stepped up from \$87.6 million to \$143.9 million, with additional amount contributed by the United Kingdom (\$12.7 million) and Denmark (\$1.6 billion).

### Improved terms

The terms of Official Development Assistance, which have been improving over recent years, improved further in 1973 as the grant element increased from 64 per cent in 1972 to 87 per cent (the share of grants in new commitments rose and loan terms softened).

The main provision of the Recommendation on the Terms and Conditions of Aid adopted by the DAC in 1972 is that members should use their best efforts to reach and maintain an average grant element in their ODA programmes of at least 84 per cent. The grant element is in essence a measure of the softness or concessionality of a transaction, and takes account of the maturity, grace period and interest of a loan. It is the difference between face value and the discounted present value of the stream of repayments, including interest, to which the loan will give rise, expressed as a percentage of its face value. In calculating it, a standard rate of interest is used which is assumed to reflect the market rate of interest in donor countries. This rate of interest (or more accurately, rate of discount) is conventionally taken as 10 per cent. Some examples may help to understand the concept.

—The grant element of a grant is 100 per cent, since there are no repayments.

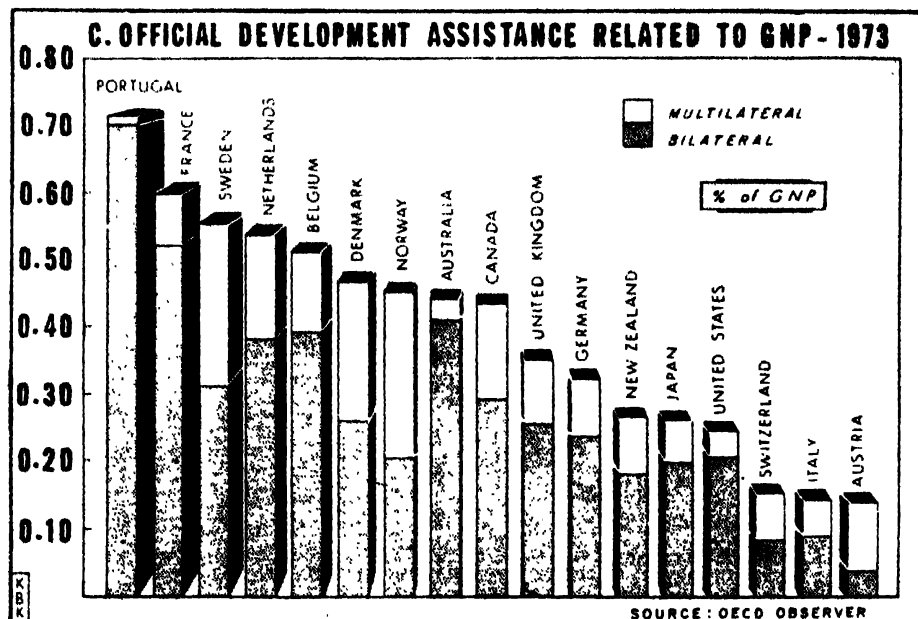
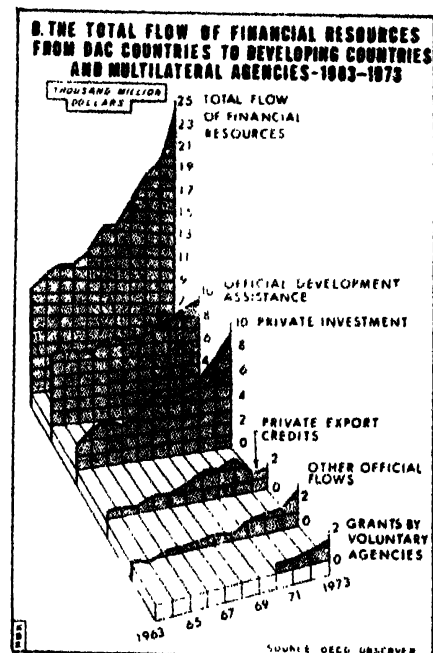
—The grant element of a loan at 10 per cent is nil, because the actual and standard rate of interest are the same.

—The grant element of a 30-year loan, amortised 6-monthly in equal instalments, with a 10-year grace period, extended at 2½ per cent interest is 62 per cent.

In 1973, thirteen out of the seventeen DAC countries complied with the general terms objective. Of these thirteen, eight raised their grant element above the levels of 1972: Denmark, France, West Germany, the Netherlands, New Zealand, Sweden, the United Kingdom and the United States. Australia, Belgium, Canada and Norway roughly maintained the already high concessionality of their ODA programmes. Switzerland complied on terms grounds proper, but as in previous years, the volume of its commitments was too low to be considered as having met the terms target.

Of the remaining four countries, the information for Austria and Portugal is incomplete. Italy, which has not accepted the terms target owing to the special problems of its economic structure, softened the terms of its small programme. Progress was made by Japan, whose aid programme is relatively recent. It raised the grant element of its ODA from 61 per cent to 68 per cent.

Export credits, private lending private investment and grants by voluntary agencies together, which are not considered aid but do constitute part of the net flow of resources, increased more than Official Development Assistance. Most official export credits are provided by West Germany, Japan and the United States, and their volume almost doubled. Direct private investment rose to a new record of \$5,900 million and bilateral portfolio investment by 30 per cent, but



this was partly offset by lower purchases of multilateral portfolio securities by private investors. Private export credits were 25 per cent below their 1972 level and grants by private voluntary agencies increased by 30 per cent. Thus the total net flow of resources rose sharply in absolute terms—by 21 per cent, to a new record of \$24,000 million but in terms of GNP remained at the same level as in 1972—0.78 per cent. This figure, however, excludes most Euro-currency lending, which is not officially reported to the DAC; this has expanded rapidly in recent years and is estimated to have reached at least \$9,000 million gross in 1973. (Some estimates go as high as \$12,000 million). While no figures are available on individual countries, it is known that DAC members accounted for a major part of these funds.

### substantial increase

Thus the total net flow of financial resources to developing countries actually increased substantially in 1973. The target of one per cent of GNP recommended by the United Nations and accepted by all DAC members would probably have been reached in 1973 and possibly exceeded if all Euro-market lending were included.

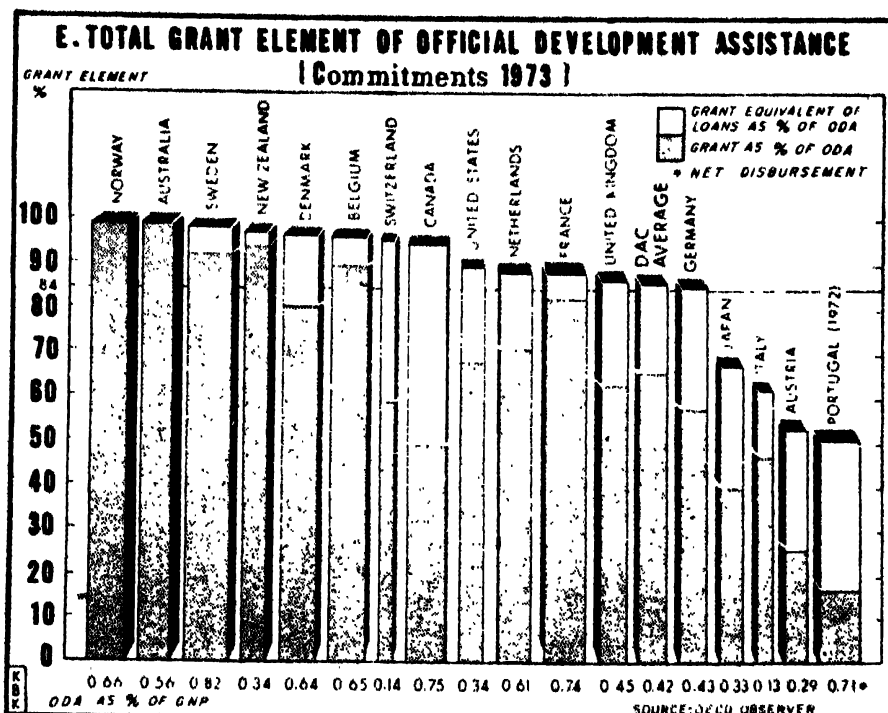
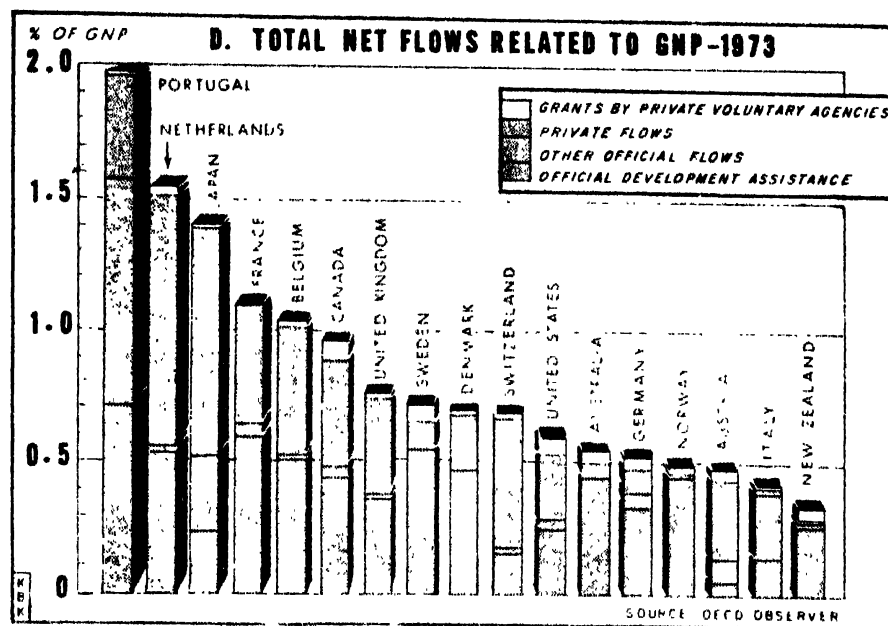
Recorded performances varies considerably between individual countries. Five countries—Belgium, Japan, the Netherlands and Portugal exceeded the target level of one per cent. For some countries the percentage fell, in particular the United States, which recorded a further decline from 0.66 per cent in 1972 to 0.58 per cent in 1973.

Since flows at market terms increased their share in the total flow at the expense of ODA, terms would have hardened for this reason alone, but the effect was intensified by the general rise in market rates. It is difficult, however, to quantify the implications of this: the increase in the debt due to harder terms is to some extent offset by inflation, and it would seem that individual developing countries may be affected differently.

The outlook is difficult to assess, but DAC members have stated their deter-

mination to make all possible efforts to maintain and enlarge their aid flows to developing countries, and to improve the terms of their aid further. They are also prepared to extend relief assistance in various forms to the poorer developing

countries which have been most seriously affected by the price of oil and other essential imports and, in channelling their aid to give priority to the countries whose needs are the greatest and most urgent.



# Painful progress

Vienna

## towards stability

E.B. Brook

WEST EUROPE is in a peculiarly perplexed, uncertain and pessimistic mood which in only change into an unexpectedly glorious recovery or sink into even deeper resignation. Which way it will go will depend on a number of factors. Superficially there is little prospect of better days; strikes continue in Britain and Italy, unemployment increases—though not dramatically—in West Germany, France has had labour troubles with the posts, radio television and sanitation services and there seems to be disenchantment with the relatively young President Eisinger.

### Steady rise

Overall, prices steadily rise with more increases promised as soon as 1975 dawns and there is continuing nervousness about the value of money leading to a good deal of needless buying which helps only to force up prices further. On the whole, the Common Market, moving from "summit" to "summit", moves forward very slowly, uncertain of the British, divided on important issues between the Germans and the French and looking forward to its new relations next year with east Europe and Comecon with uncertainty. Prophets of gloom are to be found everywhere in the Market area and outside, stockbrokers advise their clients to sell securities and "run for cash" only to find from the stores that cash buys steadily less.

Not a happy outlook for 1975; the west Europeans have not been happy for over a year, in fact since President Nixon took the international burden off the dollar by devaluing. The oil-owners merely added sharply to depression last year by putting up their prices four-fold. Europe knows the post-war boom has come to an end but does not know what the future holds—very largely because their leaders are not agreed among themselves or with the USA as to what is best to be done. Overall, there is fear of a new Middle-East conflict, with Cyprus possibly added to the Arab-Israeli war as a good measure.

But such unadulterated gloom is obviously excessive and suggests an atmosphere of exaggeration. Until quite recently both France and Italy were managing to

maintain a fair level of business activity—only in the last few weeks have they, also, been heading for increased unemployment and moving toward zero growth in productivity and sales. This means that in almost all the Market area—and outside—consumer demand has held up well, despite rising prices. If the European has less faith in his money he still, on the whole, has plenty of it. What, in fact, makes present circumstances worrying is that the little man in almost every west European country has become used to being a little capitalist with not only an adequate income and bank account but an owner of a small parcel of equity shares or more often, unit trust shares. It is the sharp fall in the value of these investments that worries and angers a section of the population that strictly speaking, should never have been speculators or investors at all.

### the "little man"

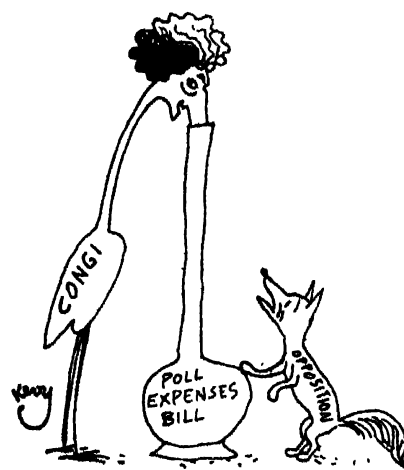
Attracted by the swift growth achievements of companies and unit trusts in the '60s the "little man", lacking experience in these matters, expected the good times to last forever and is now crestfallen to find that they do not. The middle middle-class who had become used to the luxury of owning two cars, usually parked in the front garden, resents having to make do with one and that the cost of foreign travel owing to sharply deteriorated exchange values in his currency makes the need to stay at home imperative. These inconveniences—if they are such—can scarcely be called hardships: the fact that sales were till recently holding up shows that lack of cash was not causing personal anxiety until very recently.

The solid facts are that unemployment in France and West Germany has been growing this year faster than in Britain and, in Italy—which still has the highest percentage—it has been slowly falling. It is very largely because worklessness has been increasing sharply in W. Germany and, more recently, more sharply in France that there is so much fuss about it. France and, especially, Germany of post-war vintage are not accustomed to unemployment and are more frightened by it than are the more bitterly experienc-

ed British and Italians. Similarly, industrial growth has fallen only a little in France, sharply in Britain and Italy who are used to this phenomenon and recently, sharply in W. Germany which is not used to it at all.

Those who complain loudly about prices in Britain—where they have certainly increased in recent months—should try the continental Market countries and EFTA countries such as Austria. West German prices rose till September while British were falling. France is more expensive than either while Italy bids to become west Europe's most costly country for living outside expensive Scandinavia. A hair cut in Austria costs three times as much as in Britain, and though the percentage rise in central Europe is less than in Britain the base price from which this percentage increase is calculated is considerably lower in Britain than anywhere on the continent. The average Value Added Tax in Switzerland and Austria is 16 per cent with the result that state earnings from it are disappointing because people are unable to pay the prices plus this heavy tax. Excessive taxes produce an adjuster in the form of decreased sales, but the effect on industrial and farm production is very discouraging.

Almost all west European countries except the Scandinavians and W. Germany are in deficit on their trade



balances; Britain and Italy have managed to raise the level of their exports to 75 per cent of imports and France to 90 per cent while W. Germany still manages to export about 125 per cent exports over imports. In each case the essential problem is keeping the process under control, helping beneficial changes without blocking the national system which differs in every case. The chief problem is that the characteristics of coming stability after adjusting to fuel prices and inflation are still unknown and emerge only slowly. As a result, steps are taken cautiously with very gradual relaxation of credit restrictions, a gradual lowering of rates of interest. This has occurred

in the USA, then in W. Germany and now in France. Similarly, in the foreign exchange market the hectic days of revaluations and devaluations are giving way to a more cautious feeling of the way towards the best balance between the dollar, the mark and other leading currencies. Recycling the "petrodollars" is still in its embryo trial stages but an instinctive realisation of the urgent need to avoid catastrophe has led to some unusual evidence of solidarity, with West Germany finally agreeing to make a loan to prevent the collapse of the Italian economy and Iran and Saudi Arabia coming to the assistance of France and Japan with Iran and Kuwait buying into German industries

as one profitable and constructive way of allaying new excessive cash wealth in Middle-East with the most efficient forms of west European industry.

In conditions where little is certain, where many crucial problems remain to be solved while Europeans are nervous and a trifle quarrelsome it is at least encouraging that what appeared at one time to be a threat of beggar-my-neighbour-tactics is giving way to something like a simultaneous—though not concerted—effort to find unspectacular means of getting through a difficult period. The greatest stability will however come if politicians can lessen their fear of allowing some unemployment to grow.



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# TRADE WINDS

## Central Loans

THE UNION government announced on December 16 two pre-loans for Rs 75 crores to make the total market borrowing so far during the current financial year to Rs 491.61 crores. The 1974-75 union budget had taken credit for a receipt of Rs 491.36 crores from market loans. The first two tranches issued on July 10 and November 22, 1974 added a net receipt of Rs 6.61 crores, leaving a balance of Rs 81.75 crores. As in the previous cases, the government has reserved the right to rein subscriptions up to 10 per cent in excess of the notified amount.

The two loans announced on December 16 are: (i) 5-1/4 per cent, loan, 1978, to be issued at Rs 100 each and repayable at par on November 22, 1978. (ii) 6 per cent loan 1988, to be issued at Rs 100 each and repayable at par on November 22, 1988.

Subscriptions were to be received from December 28 to December 30, 1974, (both days inclusive): for the subscription lists issued on December 28, on loans being fully subscribed on opening day. All subscribers will receive full allotment. Interest for the period December 28, 1974, to May 21, 1975 inclusive will be paid on May 21, 1975 and thereafter interest will be paid half-yearly on November 22nd and May 22.

## Indo-EEC Joint Commission

This country hopes to enhance its quotas for a

number of export products to the EEC for the next year, besides continuing to enjoy duty-free entry for jute and coir goods into Britain and Denmark. This was stated by Commerce Secretary, Mr Y.T. Shah, while addressing newsmen at the end of the second Indo-EEC Joint Commission meeting recently. Mr Shah, who is the chairman of the commission, stated that the expectation was based on the "atmosphere of further liberalisations" that permeated the talks. He and Dr. M. Caspari, leader of the EEC team, described the discussions as "constructive, fruitful and forward-looking." Dr Caspari noted that the discussions on certain aspects were not easy and would require a longer time to clarify but talks did create the necessary climate for better trade and economic relations between the two sides. Dr. Caspari was particularly optimistic that the volume of trade which India had with Britain was possible with other countries of Community also. The missing link perhaps was that either side did not know the potentiality of the other. It was necessary to bring in industrialists of the two sides into a closer contact than hitherto for trade promotion.

## Trade with Bangladesh

Ruppee trade between India and Bangladesh has been abolished. The three-year ruppee agreement, officially called Bilateral Payments and Trade Agreement, came to a premature end on December 31, only after a brief existence of a little over 17 months. The union minister for Commerce, Prof. D. P. Chattopadhyaya,

explained that the switchover to convertible currency would promote uninterrupted trade between the two countries. "Our experience with Yugoslavia has proved that," he added. A protocol was signed recently by Prof. Chattopadhyaya and the Bangladesh Commerce minister Mr Khandaker Moshtaque Ahmed to provide that with effect from January 1, 1975 all payments and charges in connection with trade between the two countries shall be effected in freely convertible currencies in accordance with the foreign exchange regulations in force in each country from time to time. Prof. Chattopadhyaya pointed out that the ruppee agreement had to be terminated because it had not yielded the results that had been expected. He blamed transport bottlenecks in Bangladesh and strikes and go-slow in India for the failure of the ruppee trade agreement between the two countries.

## Indo-USSR Trade

A significant increase of about 15 per cent is anticipated in the trade turnover between India and the Soviet Union during 1975. Against Rs 600 crores during 1974 the total turnover this year is expected to be about Rs 700 crores. Final round of trade talks with the Soviet Union—biggest trading partner of India—were held recently. Russian delegation headed by Mr I. T. Grishin, deputy minister of Foreign Trade, was in this country to finalise the list of commodities and to sign the agreement. In October, Commerce Secretary, Mr Bose Mullick had gone to Moscow for talks with the Soviet authorities. Under the annual plan for 1975 among the much-needed items that the Soviet Union would supply to this country are kerosene, fertilisers, non ferrous metals and equipment and machinery. The pattern of exports to the Soviet Union from this country would include traditional goods such as textiles and jute, besides,

this country would export engineering goods, leather goods, oilcakes and ready-made garments.

## Delegation from Iran

Iran's desire to evolve closer economic cooperation with India was amply reflected in the statement of Mr Ahmed Khayyami, the leader of visiting 15 member delegation from Iran Chamber of Commerce, Industries and Mines. He fully praised India's industrial development and this country's capacity to meet the needs of Iran, now launching a massive programme of industrial development. During their visit to various units in Delhi and Bombay, the visitors located numerous avenues of cooperation between the two countries. Mr Humayun Faruzan, a member of the delegation, stated that India was a country with skills in many fields. He was certain that the two countries could cooperate in many fields. He pointed out that Irano-Hind Shipping Lines, a joint venture to be launched within three months, would mark the first step towards the building of trade between the two countries.

## Indo-Polish Accord

India and Poland have evolved an arrangement to protect their reserves because of international currency fluctuations. Poland has agreed to continue ruppee trade with India for the next three years under a trade and payments agreement signed in New Delhi recently. The new Indo-Polish trade agreement will thus replace the existing agreement which is to expire by the end of December this year. The trade agreement was signed by the Commerce Secretary, Mr Y.T. Shah for India, and Stefan Gerkowicz, vice-minister of Foreign Trade Supply, for Poland. Poland is the second largest trading partner of India in east Europe next only to the Soviet Union. The trade turnover between the two countries in 1973 was Rs 85.57 crores while the trade plan for

1974 envisaged a turnover of Rs 200 crores. The trade plan for 1975 is likely to be finalised in Warsaw shortly.

### Assistance from Britain

Britain has given a loan of Rs 17.75 crores to this country as debt relief under an agreement signed recently. The agreement was signed by the British High Commissioner, Sir Michael Walker, for the British government and Mr M.G. Kaul, Secretary, Department of Economic Affairs, union ministry of Finance. The loan represents British contribution to the debt-relief scheme for 1974-75 agreed by members of the Aid-India Consortium following the negotiations held earlier this year. The loan is not tied to the purchase of goods and services from Britain and thus amounts to a transfer of free foreign exchange. It is on the usual soft terms of British lending to this country. It is free of interest and service charges and repayable over 25 years, with no repayment due during the first seven years.

### Trade with Yugoslavia

A high-level trade delegation led by Mr Y.T. Shah, Commerce Secretary left for Yugoslavia recently. The delegation consisted of representatives from the ministries of Commerce and Industry and Civil Supplies, public sector undertakings such as Engineering Projects (India) Ltd, and SAIL International and from the private sector. The delegation which has been invited by the government of Yugoslavia, will explore opportunities for strengthening and expanding Indo-Yugoslav trade and economic relations. Trade between India and Yugoslavia increased to Rs 31.4 crores in 1973-74 from Rs 19.8 crores in 1972-73. India's exports increased by 90 per cent from Rs 12.4 crores in 1972-73 to Rs 23.5 crores in 1973-74.

### Gold Prices

The price of gold rose to a record of \$194.50 an ounce in

the morning trading of London bullion Markets on December 27. Dealers stated that the \$7.00 rise from December 20, price fixing reflected new confidence in gold following a statement by the French prime minister that differences with Iran over the revaluation of France's gold reserves had been ironed out, and also due to anticipated American demand.

### West German Bank Rate

The West German Central Bank recently lowered Bank Rate by half a point to six per cent to support the government's new reflationary policies aimed at fighting rising unemployment and the threat of recession.

### World Oil Production

The Soviet Union is the world's largest oil producer, averaging 9,034,000 barrels per day during the first nine months of 1974, according to the figures compiled by the Venezuelan Mines ministry. Soviet production increased by 8.6 per cent this year while the United States, world's second largest producer, saw its output fall by 3.8 per cent to 8,869,000 barrels per day. Five members of the Organisation of the Petroleum Exporting Countries (OPEC) rank as third to seventh largest producers. Saudi Arabia's output increased by 7.6 per cent to 8,430,000 barrels per day, Iran's rose by 4.5 per cent to 6,103,000 barrels, Venezuelan output dropped by 10.4 per cent to 3,015,000 barrels. Kuwait's fell by 15.7 per cent to 2,629,000 barrels and Nigeria increased its output by 12.7 per cent to 2,266,000 barrels. Canada is the world's eighth largest producer with a 2.6 per cent rise to an average 1,840,000 barrels per day.

### FCI to Make Explosives

The Fertiliser Corporation of India has taken up the manufacture of explosives. A Rs 2-crore methylamines plant at Trombay was commissioned recently. Methylamine is better and safer than dynamite as an explosive. The plant,

the first of its kind in the country, will annually produce 1,000 tonnes of monomethylamine, 2,500 tonnes of dimethylamine and 500 tonnes of trimethylamine. At present this country is importing its requirements. The plant has been built with US know-how on a turn-key basis. The design of the plant is flexible to produce any one or more of the products and in any concentration. The foreign exchange cost of the equipment of the plant is only five to six per cent of the total erection cost.

### Export of Canned Foods

This country exported processed food worth Rs 19.01 crores in the first six months of the current financial year, Mr Kisan Mehta, chairman of the Processed Food Export Promotion Council stated recently. Addressing the 11th annual general meeting of the council, Mr Mehta indicated that the council was making efforts to increase its export performance to a minimum of Rs 35 crores against the original target of Rs 31.85 crores. Exports during 1973-74 were of the order of Rs 31.03 crores as against Rs 24.48 crores in 1972-73. Mr Mehta added that India suffered a setback in the export of mango juice in 1973-74 to the Soviet Union with only 3,000 tonnes of export, a fall of 50 per cent in average exports.

### Hindustan Shipyard

The Hindustan Shipyard Limited (HSL) earned a net profit of Rs 53.39 lakhs during 1973 as against Rs 64.70 lakhs in the previous year. This was revealed in the annual review of the shipyard for 1973-74 presented in the Rajya Sabha recently. Out of the cumulative profit of Rs 100.54 lakhs, a sum of Rs 39 lakhs had been set apart as development rebate reserve raising the reserve to Rs 117 lakhs. It also revealed that a sum of Rs 296.58 lakhs was due to the company from the government of India representing estimated subsidy on the vessels built and

delivered during 1973-74. The company delivered three vessels of about 13,800 dwt during the year and eight were in various stages of construction. The total value of production during the year reached Rs 1,521.81 lakhs as against Rs 1,275.98 lakhs in the preceding year.

### Bihar's New Emporium

"Ambapali", Bihar's new handicraft retailing centre in the posh state handicraft emporia complex in New Delhi was inaugurated by the President, Mr Fakhruddin Ahmed on December 20. Besides the President and Begum Ahmed, Mr Abdul Ghafoor, the chief minister of Bihar and Mr Chandrasekhar Singh, the state Industries minister, and other high officials, people also turned up in large numbers to make the occasion a colourful and memorable one. The President was very much impressed by the exhibits which is a glowing tribute to the exquisite craftsmanship of the artisans who have kept alive the rich culture of Bihar. Mr Ahmed received a carpet as gift on this occasion.

The "Ambapali" emporium will be managed by the Bihar State Handloom, Powerloom and Handicrafts Development Corporation. This corporation has an authorised capital of Rs 5 crores and its main activities will be to promote the development of handicraft and handloom sectors. It will also manage the sales emporia functioning at Delhi, Calcutta, Bombay, Ranchi and Patna. Besides this corporation, the Bihar State Leather Industries Development Corporation also has been set up with an authorised capital of two crores of rupees, the main objective being to achieve the intensive development of leather and allied industries in the state.

### Names in the News

Dr A. R. Bajji, Director of News Services of All India Radio, has been appointed Principal Information Officer to the government of India.

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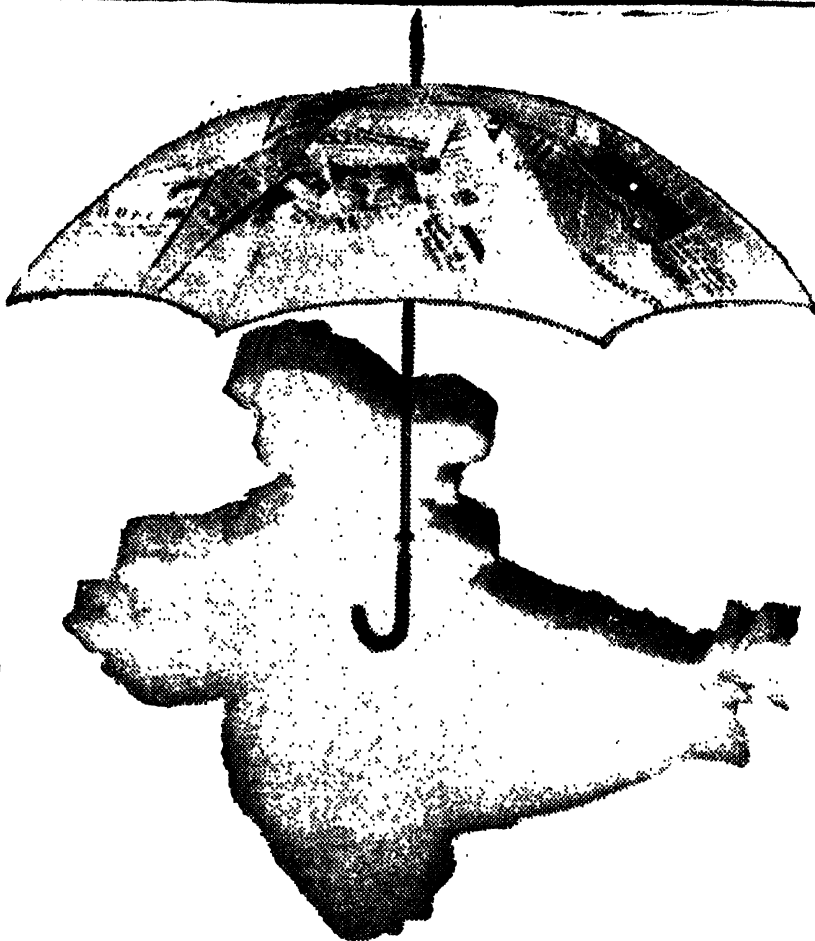
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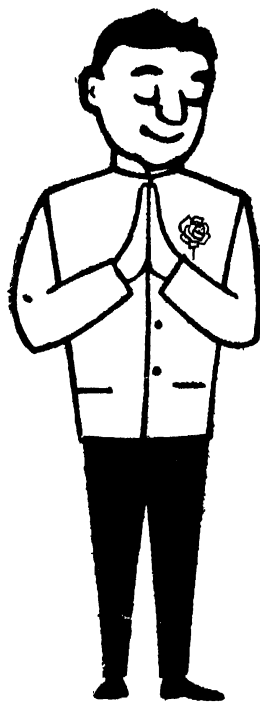
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# COMPANY AFFAIRS

## Markets Buoyant

SHARE MARKETS again turned buoyant last week. Several scrips recorded further hand-ups on sustained support and hectic bear covering. The market sentiment improved considerably following the Union Finance ministry's assessment discounting fears of recession overtaking the economy. Renewed hopes of a modification in dividend controls and flow of encouraging corporate news also brought some cheer to the markets. The prevailing mood in the markets so far is one of optimism. How long this will last is anybody's guess?

The upward trend in equities on Dalal Street accelerated further during the week, with several scrips registering sharp gains. Textiles were in the limelight on improved outlook for the industry. Khatau, Lafatal Fine and Finlay, picked up substantially during the week. Trading on the Sensitive Range was steady during the past week. The improvement was largely of a technical character. Besides hopes of relaxation in dividend curbs and a steady flow of encouraging corporate results also aided the market movement. Sugars, textiles, chemicals and industrials were the forte on the Madras Stock Exchange during the week. The turnover of business was fair and the undertone of a mixed nature.

## Industan Lever

The shareholders of Hindustan Lever has passed a resolution approving the sale of the company's undertaking at Tirupattur, manufacturing of stable oil products. The firm forms a small part of the company's total operations

both in terms of the book value of the fixed assets and the turnover. According to the management, the viability of the unit in South India has been seriously affected following the uneconomical price control and increasing loss accentuated further by rising labour costs. Meanwhile the company has taken up three projects in order to diversify its activity. One of the projects would be a detergent plant to be set up in Jammu & Kashmir. The necessary industrial licence has already been obtained and production is expected to start by the end of next year. Another project is for the manufacture of a new product and it is being put up at Talaja, Bombay at an estimate cost of about Rs. 1.5 to 2 crores. The third project relates to the manufacture of phosphates at an estimated cost of Rs 15 crores. It would be set up at Haldia.

## Siemens India

Siemens India has proposed a one for one bonus issue of equity shares besides reporting excellent working results in the year ended September 30, 1974. Besides it has also proposed an equity dividend of 12 per cent the maximum permissible at present under the dividend ordinance, as against 18 per cent declared for the previous year. Half of the recommended dividend will however, be tax free in the hands of shareholders. The company's sales during the year soared to Rs 53.7 crores from Rs 43.7 crores while gross profit jumped to 8.17 crores from Rs 4.58 crores in 1972-73. Out of the gross profit, the directors have allocated Rs 88 lakhs to depreciation reserve, Rs 4.8 crores to taxation, 13.5 lakhs to development rebate reserve, Rs 5 lakhs to

debenture reduction reserve and Rs 2 lakhs towards doubtful debt reserve as against Rs 76 lakhs, Rs 2.4 crores, Rs 12 lakhs, Rs 5 lakhs and Rs 1.5 lakhs provided respectively in the preceding year. After adjustments there is a balance of Rs 2.29 crores and it has been transferred to the general reserve out of which the proposed dividend amounting to Rs 28.8 lakhs will be paid.

## International Tractor

The International Tractor Company of India Ltd has secured an order from Turkey for the export of 750 tractors valued at Rs 2.5 crores. The first consignment of 200 tractors had already being shipped. It is significant to note that the company has secured by the middle of last month export orders for tractors and implements valued at over Rs 4 crores. The countries to which the company is exporting include United Kingdom, Australia, Turkey, Japan, Indonesia, Kenya, Tanzania, Zambia, Muscat and Nepal. In addition to exports, the company has also signed a collaboration agreement in Zambia for the manufacture of implements under which it will provide the complete technical know-how and components required for the assembly plant. Also, the company is likely to enter into negotiations with Zambia for collaboration agreement for setting up a tractor assembly plant. It may be recalled that the company started production of tractor at its thirty-five acre Kandivli plant in 1966 and it has so far produced over 53,000 tractors.

## Shriram Bearings

Shriram Bearings Ltd. has reported appreciable rise in turnover and profits during the year ended June 30, 1974.

Sales during the year spurted to Rs 4.08 crores from Rs 3.19 crores in 1972-73. While gross profit moved up sharply to Rs 83.07 lakhs from Rs 64.17 lakhs in the previous year. Out of gross profit the directors have allotted Rs 10.92 lakhs to depreciation reserve, Rs 0.63 lakh to development rebate reserve and Rs 45.66 lakhs to taxation as against Rs 17.65 lakhs, Rs 2.18 lakhs and Rs 30.42 lakhs provided respectively in 1972-73. This leaves a balance of Rs 25.86 lakhs and it has been transferred to the general reserve. In view of the dividend ordinance the directors have recommended an equity dividend of 12 per cent and 9.3 per cent on preference shares. The equity dividend will absorb Rs 6.60 lakhs while the preference dividend will claim Rs 1.86 lakhs.

Although the turnover and profits are better than in 1972-73. Further improvement in operations has been handicapped by some of the machines which have worn out after having been in use for more than ten years. Phased replacement of the machines has been planned on the basis of operational priorities and with such replacement it is expected that the physical operations would improve further. However, improvements in financial working results would depend considerably upon the efforts of tightness of bank credit, continued power shortage affecting most of the consuming industries and the cost of production which is escalating continuously. The company's scheme for expansion of ball bearings capacity has been making steady progress. Capital goods clearance for the Aurangabad unit has been received. Arrangements for foreign exchange and rupee loans have been made. The government's approval under the MTRP act for setting up the factory at Aurangabad is now awaited. The company's foreign collaboration proposal for setting up a project for manufacture of roller bearings is still pending with the government for a decision. The abnormal delay which has already taken place in government clearance for

the project has made its implementation highly uncertain.

### Sakthi Sugars

The outstanding achievement of Sakthi Sugars is the doubling of crushing capacity to 4,000 tonnes daily in less than three years and the installation of a distillery with a capacity of three million gallons annually. Ever since it began crushing operations in 1964-65, there has been a steady increase in the quantity of cane handled and sugar produced and it should be said to the credit of the management that at no stage difficulty was experienced in securing the required cane supplies. The vigorous implementation of expansion schemes in 1971-74 has also resulted in a considerable saving in capital outlay as the value of gross fixed assets at Rs 958.58 lakhs on June 30, 1974 would require an investment of over Rs 20 crores on the basis of current costs even for creating the same facilities.

For Sakthi Sugars the year 1973-74 was spectacular in many respects. A record quantity of cane of 8.13 lakh tonnes against 6.88 lakh tonnes in 1972-73 was handled and the output of sugar at 67,776 tonnes against 59,972 tonnes in 1972-73 constituted the second largest for any factory in the whole country in spite of a low recovery due to factors beyond the control of the management. The working results for 1973-74 too are gratifying being the second best in the history of the company notwithstanding the heavy losses that had to be sustained by sugar mills in Tamil Nadu particularly due to the fixation of price of levy sugar on an unrealistic basis by the government and high prices that had to be paid to cane growers. The net profit before depreciation has thus been significantly higher at Rs 104.72 lakhs as against Rs 74.99 lakhs in the previous year in spite of higher interest charges, a bigger wage-bill and higher cost of cane. With no liability for taxation it has been possible for the directors to recommend payment of the

permissible maximum dividend of 12 per cent taxable even after allocating substantial amounts to various reserves. The charge in respect of depreciation is naturally higher at Rs 46.99 lakhs (34.66 lakhs) and development rebate Rs 32.67 lakhs (Rs 7.15 lakhs). There is no allocation towards

taxation against Rs 9 lakhs formerly.

The transfer to preference share redemption reserve is Rs 50,000 (same) and dividend reserves Rs 18.45 lakhs (Rs 22.50 lakhs). Generation of internal resources for Rs 80.16 lakhs has been very

useful in meeting part of heavy capital expenditure Rs 391.93 lakhs incurred 1973-74. The full benefit the expanded facilities will realized in 1974-75 as it is confidently expected that quantity of cane crushed will constitute another record nine lakhs tonnes and there



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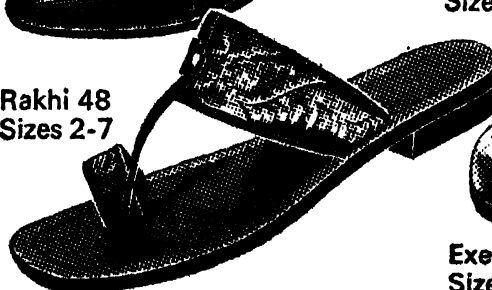
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to the prospect of a higher recovery of sugar being achieved.

The current year may turn out to be another important landmark in the history of the company.

### Kothari (Madras)

Kothari (Madras) is an amalgam of five companies, Waterfall Estates Limited, Mountain Estates Industries Limited, Madies Plantations Limited, Kothari Textiles Limited and Koni Spinning & Weaving Company Limited. The first year of the amalgamated companies results were published in the accounts for the year ended June 30, 1972. The profit for the year ended June

1974 is a record profit achieved by this company and a record in regard to profits achieved by the amalgamating companies in any of the previous years. The gross profit of the company was of the order of Rs 331.38 lakhs against Rs 76.84 lakhs achieved during 1972-73. After adjustments, the directors have appropriated Rs 41.84 lakhs to depreciation reserve, Rs 10.73 lakhs to development rebate reserve, Rs 150.00 lakhs towards taxation, Rs 45.00 lakhs taxation reserve and Rs 10 lakhs to general reserve. The board of directors have declared a dividend of 9.3 per cent on its preference capital and a dividend of 12 per cent on its equity capital. A dividend could have been higher but for the restrictions imposed by the government on distribution of dividends. It may be noted that despite power cut of varying frequencies, throughout the year, production has been much higher than the previous year because of the installation of generators in the various units of this company.

The production of textiles, however, has been exceptionally good not only because of the installation of generators, but also due to the constant modernization programmes carried out at its textile mills right from 1960 and onwards. The company has so far spent approximately over Rs 10 lakhs. Modernization

programme is still being carried out in phases. Similarly, this company is attempting to improve its production of tea both as regards its quality and quantity. Besides modernising its tea factories a systematic replanting or regeneration programme of at least eight per cent to 10 per cent of the coffee acreage has been started and it will be completed progressively in the course of next few years. The company has received licences for the installation of 300 automatic looms each, in one of the textile mills at Coimbatore and its textile mill at Adoni. The matter is under active consideration. In its fertiliser division, the company has got an approval from the government for expanding the capacity of the sulphuric acid plant from 15,000 tonnes to 18,750 tonnes per annum, which is expected to cost Rs 20 lakhs. This expansion programme is expected to be completed in the current year.

One of the primary objectives of the scheme of amalgamation was to utilise more effectively the resources of the amalgamated companies to provide a steady rate of return to the shareholders and achieve greater financial stability to enable expansion, diversification etc. With this objective in view, the company has applied for a licence for manufacturing of caustic soda and ammonium chloride. Tangible progress has been achieved in regard to this project and barring unforeseen circumstances, it is expected to go into production by early 1977. The estimated investment is of the order of Rs 15 crores and the gross profit for this unit is alone expected to be of the order of Rs 2.5 crores.

### Refractory Specialities India

Refractory Specialities India Ltd is being set up in the backward district of Santhal Parganas, Bihar, for the manufacture of monolithic Refractories of all types as well as high alumina bricks upto 99 per cent alumina. The unit is being set up by

entrepreneurs who are already running four small-scale refractory units manufacturing wide range of refractories such as silica, sillimanite, high alumina bricks and other grades of fire bricks. Encouraged with the progress in the four small-scale units the entrepreneurs, who have no backing from any other big house, have now decided to set up a medium-scale unit.

The high performance refractories will be manufactured with the technical know-how of North American Refractories Co. who are one of the major refractories producing company in the United States. This company will provide complete know-how for manufacture, for applications and plant design layout for this Unit. Great emphasis is being laid by

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this company not only to manufacture consistent quality refractories but also to provide complete technical services in regard to application of monolithic refractories in the steel, petrochemical, fertilizer, cement, power generation and other industries.

The company's own refractory lining crews will install special refractories at the customers site. Almost all the petrochemical and fertilizer units are importing this special refractories along with steel industry. This unit will provide indigenous product which are hitherto being imported. The company has an export obligation of 10 per cent and has already located buyers who have shown keen interest in obtaining the products of the company. The major outlet for exports would be in middle East and South east countries. The collaborator has also agreed to assist this company in taking part of the production for meeting the export obligation. The total project cost is Rs. 135 lakhs, out of which equity will be Rs 40 lakhs, backward area subsidy Rs 15 lakhs and institutional loan Rs 80 lakhs. The project is very viable and good investment and hence assures an early return on capital.

### West Bengal Industrial Dev. Corp.

The West Bengal Industrial Development Corporation has sanctioned incentives to 14 medium and large industrial units in the month of November, 1974. The incentives include sales tax refunds as long term loans, 30 per cent subsidy on power consumption, repayment of octroi duties and 75 per cent subsidy on cost of preparing feasibility reports. The 14 units which comprise new ones and expansion projects of existing companies are: Shaktigarh Textiles in Burdwan, Bengal Arc Steel in Purulia, Eastern Spinning Mills in 24 Parganas, Orient Steel and Industries in Hooghly, Fort William Co., in Hooghly, Silver Fibre Mills

in Midnapore, Siddhartha Ferro Alloys in Hooghly, Universal Industries & Cotton Mills in Biruhum, Pench Steel in Hooghly, Purulia Steels in Purulia, Singh Alloys & Steel in Nadia, Somani Ferro Alloys in Nadia, Birla Jute Mfg. Co. in Burdwan and Mohankas in Nadia. The

above units coming up in different parts of the state, will generate a total investment of Rs. 21.5 crores and offer direct employment to about 5000 people. For the current year the state government have allotted Rs. 50 lakhs for payment under the incentive scheme.

### Unit Trust

Mr. James S. Raj, chairman of the Unit Trust of India, described as "totally baseless and unwarranted" reports that the trust was in financial difficulties or that it proposed to sell some of the shares of public limited

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# Kothari Sugars And Chemicals Limited

Madras 600 034

Chairman's Statement read out at the 14th Annual General Meeting held on 27th December, 1974.



MR. D. C. KOTHARI

Ladies & Gentlemen :

I have great pleasure in inviting you to this Fourteenth Annual General Meeting of our Company.

I am glad to report that the last season has again been successful and profitable one. Although under normal circumstances, a higher dividend could have been paid, due to the restrictions on the payment of dividends imposed by the Government recently, the directors have recommended dividend of 9%.

The total crushing at Kattur factory for 271 days of working was to the tune of 3,68,066 tonnes of cane, producing 1,06,601 quintals of sugar at an average recovery of 8.33% against a crushing of 2,24,531 tonnes of cane for 193 days of working producing 1,97,126 quintals of sugar at an average recovery of 8.76% during the previous season 1972-73. The crushing of cane at the new factory at Siruguppa for

134 days of working was to the tune of 1,07,700 tonnes producing 97,800 quintals of sugar at an average recovery of 9.13%.

The statutory minimum price per tonne of cane fixed for our Kattur factory by the Government for 1973-74 was Rs. 85.60. But at the instance of Tamil Nadu Government, we had agreed to pay Rs 100/- per tonne being the price that was paid during 1972-73 season. However, on a demand made by the sugarcane growers, a meeting was convened by the Tamil Nadu Government with the sugarcane growers and the manufacturers at which meeting the Government advised the manufacturers to pay an increase of 25% over the statutory minimum price. On this basis, the Kattur factory has to pay, to its growers Rs 107/- per tonne for the season 1973-74.

The Government of India, has recently increased the basic

price for cane from Rs 80/- to Rs 85/- per tonne linked to a recovery of 8.5% with a premium of ten paise per quintal for every increase of 0.1% in recovery over the basic recovery of 8.5%. On this basis, the statutory minimum price payable at Kattur and Siruguppa factories works out to Rs. 92/- and Rs. 97/- respectively.

The Government has fixed a production target of 60 lakhs tonnes of sugar by 1978-79. The production capacity for achieving this should therefore be of an order of 70 lakhs tonnes. The achievement of this target is dependent on a definite and fixed policy regulating the control and distribution of sugar, fixation of an attractive cane price to the growers and relaxation of credit curbs.

The Government had made a policy statement in August, 1972 for intensification of cane development and also for planning for quantitative and qualitative improvement in sugarcane production. It had also announced the continuance of the policy of partial control, uniform issue price of levy sugar throughout the country and also a well conceived and properly integrated long range policy to increase the production to meet the gap between demand and supply of this commodity between the periods 1972-75.

Subsequently in September, 1972, the Government announced incentives in the form of rebate in excise duty concessions on excess production obtained by the factory. These measures had the desired result as a large number of factories started crushing operations earlier than usual despite high costs of production.

However, the Excise Duty Rebate Scheme recently announced by the Government of India for the season 1974-75

is disappointing and may not result in any substantial increase in production. Under this scheme, seasons have been divided into two periods viz. early and main, and eligibility of concessions is based on the average production of the preceding five years during the corresponding periods. It might benefit the industry if this period of five years is reduced to three years and if the system of excise concessions are continued in future also with some adjustments in regards to the duration of the main season, which could further be divided into two viz. peak recovery period and low recovery period. The additional excise duty rebate should be extended to low recovery period also.

The attention of the Government has been frequently drawn by the industry to the fixation of a remunerative price to the sugarcane grower in order that the production of sugar could be increased to achieve the target set by the Government. It is imperative that the price for cane should be commensurate with the level of prices obtained by the growers of other commercial crops. Even the recent revision in the basic price for cane announced by the Government does not obtain a remunerative price for the sugarcane growers. The prices paid by the industry are much higher than these basic minimum prices fixed by the Government.

Another important factor that has to be given consideration by the Government to give a boost to the production of sugar is the fixation of a realistic and economic price for levy sugar.

It used to be the usual practice of the Government given up in the year 1969-70 onwards, to fix provisional levy price before the beginning of the season on the basis of an estimated recovery and cost of production of cane. The prices now prevailing for levy sugar are highly uneconomical which necessitates increase in price of free sugar to make up the loss.

Sugar industry is largely dependent on bank credit for financing its production achieve-

ved in a short period of 4 to 5 months which is disposed off over a period of 12 to 14 months. There has been sharp increase in the cost of raw materials namely sugarcane and various stores items during this year. The production also is expected to be higher. The credit requirement of the sugarcane industry would be higher this year than the preceding year. Whilst this is the case, the credit restrictions imposed by the increase in the margins from 10 to 15% on levy sugar and 15 to 20% on free sugar will considerably affect the working of this industry unless the Government relaxes the credit curbs considerably.

It is fortunate that at a critical time when the foreign exchange resources of this country are dwindling, the sugar industry has been able to come in a large measure to rescue this situation. It is expected that additional foreign exchange on the export of sugar alone would account for Rs 400 crores for this country. The international price for sugar is almost double the free market price ruling in our country today. To meet the increased export demand, it is expected that a certain amount of sacrifice will have to be made by our countrymen, as the sugar production in the country is still far below the demand. In this context, sugar production has to be stepped up.

I am confident that the industry could meet this challenge if the credit restraints are relaxed and larger cane areas are assured without diversion to gur and khandsari. Adequate and assured supplies of cane can be had if the grower is assured a remunerative price for his cane.

As regards the prospects for the current year, we expect to crush about five lakh tonnes of cane between the two factories at Kattur and Siruguppa, to which if the total quantity of 87,683 tonnes of cane already crushed between July to September, 1974, at Kattur is added, the total crushing is

expected to be of the order of 5.87 lakh tonnes as compared to a total crush of 3.88 lakh tonnes last year.

The total production is estimated at 5.27 lakh quintals of sugar as compared to 3.42 lakh quintals during the previous year. The quantity to be produced therefore will

be nearly double of the previous year.

Judging from the above estimates and the present indications, I expect that the profit for the current year should be higher than the year under review.

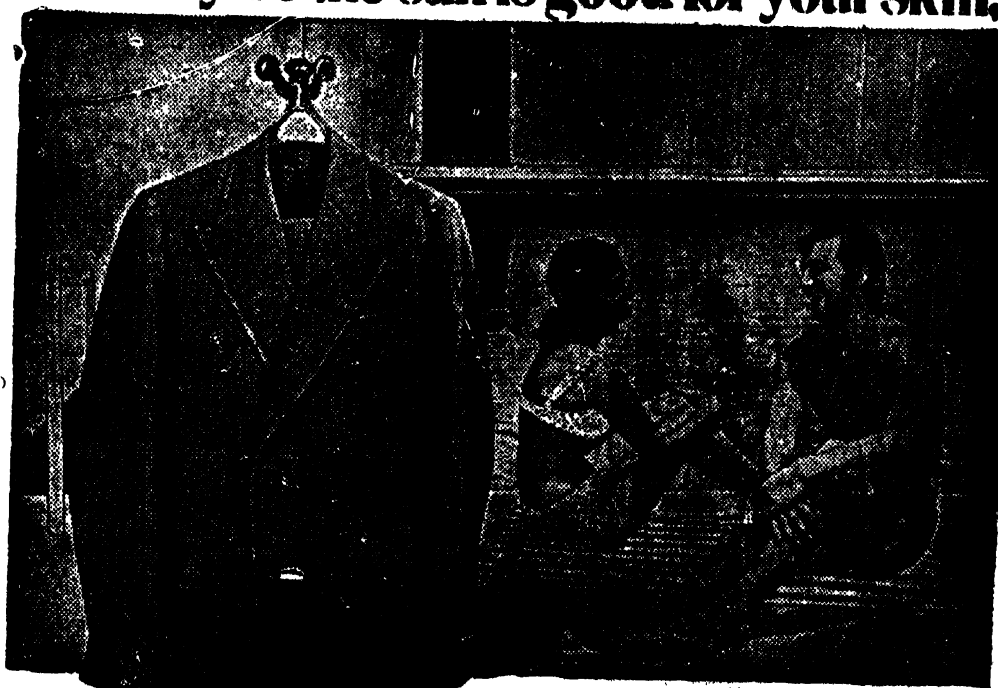
Before I conclude, I would like to thank my colleagues on

the Board for their co-operation and all the officers, staff and workers of the Company for the hard and sincere work they have put in.

D. C. KOTHAR  
Chairman

NOTE: (This does not purport to be the proceedings of the Annual General Meeting).

**May be the sun is good for your skin,**



**but is it good for your suit?**

Constant exposure to the sun can give your suit that old look. It gets faded and dull. It loses that newness, that elegance! A Jyaje Suiting has that brightness of colour, that fastness of colour!

A Jyaje Suiting has that lustre and a wide range to offer. Yes, a Jyaje Suiting can take the sun and a lot more.



**JYAJEE**  
**SUITING**

SHIRTING & DRESS MATERIALS

JYAJEERAO COTTON MILLS LTD. BANGALORE, INDIA



## COMPANY NOTICE

# Upper Ganges Sugar Mills Limited

## NOTICE

NOTICE is hereby given that the Forty-second Annual General Meeting of Upper Ganges Sugar Mills Limited will be held on Monday, the 20th January, 1975 at 3.00 P.M. at 9/1, R.N. Mukherjee Road, Calcutta-1, for the following purposes:—

(1) To receive and consider the Report of the Directors and to adopt the Audited Accounts of the Company for the year ended 30th June, 1974.

(2) To declare dividends.

(3) To elect Directors in place of Shri K.K. Birla, Shri K. Khaitan and Shri B.N. Munjhunwala who retire by rotation and being eligible offer themselves for re-election.

(4) To appoint Auditors and fix their remuneration.

### Special Business:

(5) To appoint a Director in place of Shri S.J. Utamsing who was appointed as an Additional Director by the Board of Directors. His term of office expires at this Annual General Meeting. A notice in writing has been received by the company from a member proposing a candidature for the office of Director and signifying his intention to move the following resolution as an Ordinary Resolution:—

"Resolved that Shri S. J. Utamsing be and is hereby appointed a Director of the company."

(6) To appoint a Director in place of Shri Kamalnayan Saraogi who was appointed as an Additional Director by the Board of Directors. His term of office expires at this Annual General Meeting. A notice in writing has been received by the company from a member proposing his candidature for

the office of Director and signifying his intention to move the following resolution as an Ordinary Resolution:—

"Resolved that Shri Kamalnayan Saraogi be and is hereby appointed a Director of the Company."

To consider and if thought fit to pass with or without modification the following resolutions as Ordinary Resolutions:

(7) Resolved that rendering of services by Shree Services & Trading Company Limited from 1st May, 1961 and payments therefor be and are hereby ratified.

(8) Resolved that the company hereby approves the appointment/reappointment of the following parties as Distributors for the sale of Confectionary and Milk Products manufactured by Morton Confectionery & Milk Products Factory at Marhowrah (of

which the company is the lessee) on the terms and conditions and for the areas as set out in the standard distributorship agreement subject to any variation that may be made in the terms including changes in areas:—

M/s. Badridas Rajendralal, Barnala

M/s. Gopaldas Vijendra Kumar, Patiala

M/s. Kishanchand Agarwal Sons, Ferozepur

M/s. Tayal General Stores, Modinagar

M/s. Punjab Biscuit Factory, Lakhimpur Kheri

M/s. Asumal Arjundas, Sujargarh (Rajasthan)

M/s. Jeetmul Ramdeo, Ramkola (Deoria)

M/s. Shrestha Distributors, Kathmandu (Nepal)

M/s. Lakhpat Rai Chamanlal, Meerut

M/s. Ashok General Stores, Rewari

M/s. Sethi General Stores, Roorkee (U.P.)

M/s. Balkishandas Shyamrattan, Kalimpong

M/s. Sadriwala Stores, Udaipur

M/s. Ruby Confectioners, Saharanpur (U.P.)

M/s. Satyapal Tea Co., Sriganaganagar (Rajasthan)

M/s. Sitaram Kailashchand, Mussoorie.

M/s. A. Das & Co., Allahabad

M/s. Light House, Dalsing-sarai.

By Order of the Board,

S. N. GUPTA

Secretary.

9/1, R.N. Mukherjee Road, Calcutta-1, the 16th December, 1974.

### NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.

2. Shareholders are requested to notify any change of address, failing which the dividend warrants will be posted to their addresses as registered with the Company.

3. The Register of Members of the Company will remain closed from the 3rd January, 1975 to the 15th January, 1975, both days inclusive. Explanatory Statement has been sent to the shareholders.

## Microfilm Edition of Eastern Economist

EASTERN ECONOMIST, for the benefit of its readers, both at home and abroad, has made arrangements with University Microfilms of Ann Arbor, Michigan, USA, for the latter undertaking the reproduction of *Eastern Economist* on microfilm and through xerographic copies.

This arrangement covers for the present back issues of *Eastern Economist* starting from January 1971. The question of including issues from earlier years in this arrangement is under consideration.

University Microfilms will be sending the relevant literature to prospective microfilm subscribers. It is believed that this service will be of particular interest and value to libraries, business houses, firms, government offices and other institutions which may find it useful to maintain files of *Eastern Economist* for record and reference.

Prospective microfilm subscribers may address their enquiries to: Serial Publications University Microfilms, 300 North Zeeb Road, Ann Arbor, Michigan 48106, USA.



# punjab national bank

A year of continuing CHANGE

Provisional Results—  
31st December, 1974

**CHANGE:** Change that began in PNB two years ago has been the motive force in our operations in 1974, and we hope will continue into the future as an "ally of management". 1974, but for a slack in deposits, general to the banking system, shows a satisfactory picture of performance. The targets for 1975 will aim at consolidating the new strengths and correcting the weaknesses.

In our 1974 Budget we had spelt out our task as a kind of 'panchsheel':

- Maximisation of deposits
- Maximisation of credit
- Maximisation of profits
- Minimisation of expenditure
- Maximisation of priority sector credit.

—In priority sector we are also doing well with a growth of 31%. Total export turnover nearly doubled during the year.

**PROFIT:** In profits we have recovered the position and expect a rise in contrast with a small fall last year.

**EXPENDITURE:** The newly created Expenditure Control & Financial Management Division is bringing about reductions but, more importantly a cost and income consciousness. This should add to our profitability in the long run.

In other areas of Change two points deserve special mention:

- Communications
- Men

**COMMUNICATIONS:** The system of performance budgeting and its monthly review

## HIGHLIGHTS

|                               | 1973<br>Actual | 1974<br>Provisional | 1975<br>Budget | 1974<br>+<br>1973<br>% rise |
|-------------------------------|----------------|---------------------|----------------|-----------------------------|
|                               |                | Rs. Crores          |                |                             |
| Deposits—(and other accounts) | 741            | 830                 | 980            | 12                          |
| Credit—Total, including       | 431            | 500                 | 600            | 16                          |
| Priority Sector*              | 126            | 165                 | 230            | 31                          |
| Trained—Number                | 1098           | 3150                | 4900           | 187                         |
| Branches—Number               | 1015           | 1100                | 1200           | 8                           |
| Credit—Deposit %              | 60.4           | 62.5                | 64.9           |                             |
| Priority— Total Credit %      | 29.3           | 33.0                | 38.3           |                             |
| .. excluding exports %        | 21.7           | 24.0                | 28.3           |                             |

\* Exports, Agriculture, Small Industry, Transport, Self-Employed, Professionals, Small Business and Retail Trade.

**DEPOSITS:** Taking stock of our performance, we find that:

—In deposits, in keeping with a general trend we did not show the promised rise. Instead of a rise of 19% in 1973, there will only be a rise of 12% in 1974, while the banking system will have dropped from 20%, to about 15%. In our own case, the reasons have been a reduced intake from our traditional sources of farmers and general savings, where our share has been high. Additionally, there has been a drop in industrial and commercial current deposits. We are now conscious of our problem with deposits, (as we were with credit last year). We have therefore created a new Deposits Division to address itself exclusively to the task of deposit mobilisation, and to introduce some marketing techniques.

**CREDIT:** In Credit we have done well, with an expansion of 16% as against an estimated 14% for the System. There was expansion, diversification and reduction in seasonality; and particularly a healthy rise in our share in the public sector enterprises, the "large houses" of tomorrow

has become institutionalised. In 1975 we hope to let it percolate down to branch level, to create a total involvement. Decision-making is being speeded up and the committees at Head Office are meeting regularly, especially the Executive Committee that now meets daily. A new Follow-Up Committee has been formed to clear bottlenecks.

**MEN:** Selection, training, recruitment and promotion of men is receiving the utmost emphasis. Special effort for the Scheduled Castes and Scheduled Tribes and ex-defence personnel's recruitment should clear the backlog soon. Quicker promotion opportunities are bringing down the average age of management at all levels, and training has been accelerated by opening five new Zonal Training Centres in addition to our Staff College. Improvement in the quality and content of training is our new task.

**FUTURE:** As Change spreads, innovations introduced, and problems solved, a new crop of problems arises. This is but inevitable in Change, but the main thing is that we plan and appraise and constantly innovate.

## BOARD OF DIRECTORS:

M. ABDULLA  
I.S. AHLUWALIA  
SATYENDRA NATH BHARGAVA  
O.P. CHADHA

A.K. BUTT  
S.M. GOSYE  
V.M. JAKHAR  
Dr. A.S. KAPLAN

V.M. KAR  
NAGAN MOHAN MAHAJAN  
BIMAL NARAIN MEHROTRA  
PRAKASH TANDON, Chairman

B.K. Vora,  
General Manager  
O.P. Gupta,  
Deputy General Manager



companies held by it. Mr. Raj said the financial position of the trust continued to be sound despite heavy repurchase of units since the dividend Ordinance early in July. The trust, he pointed out, was not a net seller in the share market but a buyer. Since July, it had bought a net Rs. 29 lakhs worth of shares. Mr. Raj agreed that the trust had to repurchase since July units worth about Rs. 14 crores, not during the same period it sold units worth over Rs. 10 crores. Thus the net disinvestment in units was only Rs. 4 crores. Against this, the trust had a regular flow of income from its investments amounting to over Rs. 14 crores a year. Thus there was no question of the trust being in financial difficulties.

### AIE Convention

The Association of Indian Engineering Industry (AIEI) held its two-day convention at New Delhi on December 20 and 21, and was inaugurated by Mr. T. A. Patel, the union minister for Industry and Civil Supplies. Combined with the inaugural function, AIEI organised a two-day conference on "the engineering industry and the challenges ahead". The conference consisted of three working sessions, namely, the technological challenges, export challenges and the managerial challenges. AIEI's objective was that through these deliberations, specific areas should emerge for appropriate action by the industry and the government. The principal emphasis was on raising engineering production and exports. Each working session was devoted to discussion of the problems and perspectives of action plans framed to respect each subject. Delegates from all over the country participated in this convention. It is worth noting here that the Association of Indian Engineering Industry is the largest industry association in the country with a membership of 1068 companies representing an

investment of Rs. 3000 crores and employment of one million. Its membership is drawn from small, medium and large units from public and private sectors.

### News and News

*Philips India* has already crossed the export target by the end of November 1974 and is quite hopeful of reaching the Rs 3½ crore-mark by the close of the year, although it has fixed a target of Rs 3 crores for the whole of 1974. The company's export in 1973 was to the tune of Rs 1.20 crores. The wide variety of exports during 1974 covers radio components, radio receivers, radio kits, lamps, tubes, lighting fittings, public address system, mobile amplifiers and welding electrodes. The recent despatch of over 200,000 fluorescent tubes to Hong Kong as part of a major order is an important landmark in Philips India's export drive. The first major breakthrough in the field of welding electrodes was made recently when the company received an order for 250 tons of welding electrodes from Egypt covering a value of approximately Rs one million. Initial despatches have already been made and the company hopes to obtain larger orders for welding electrodes during 1975.

*Dr Beck and Company (India) Limited* of Pimpri, Poona has signed an agreement with the Soviet Union's ministry of Foreign Trade for the supply of synthetic insulations valued at Rs 4.27 crores for the Russian electrical industry during 1975. The company has secured this repeat order from the Soviet Union against stiff competition from companies in Europe, America and Japan.

### New Issues

The Gujarat Industrial Investment Corporation (GIIC) of Gujarat state government, the promoters of the prestigious Gujarat State Fertiliser Company (GSFC) have ventured into a project for the manufacturing of caustic soda. *The Gujarat Alkalies & Chemi-*

*cals Limited (GACL)* has been formed to implement the project for the manufacture of 37,425 tonnes of caustic soda, 33,000 tonnes of chlorine and 6,000 tonnes of Hydrochloric acid (100 per cent). The technical know-how will be provided by M/s Friedrich Uhde GMBH of West Germany who have established over 70 caustic soda-chlorine plants all over the world. GACL's unit will be located in Baroda, near the consumers' plants such as Indian Petrochemicals Corporation Limited, GSFC and other chlorine-based units located or proposed to be located in the Baroda Petrochemical complex. The entire production of GACL will be consumed in Gujarat itself by textile units, GSFC, Baroda Rayon Corporation and other chemical units located near

Baroda. The cost of the project is estimated at Rs 11.40 crores which would be financed by the share capital of Rs 425 lakhs and term loans of Rs 715 lakhs. Of the share capital of Rs 425 lakhs, GIIC, the promoters, will subscribe to Rs 170 lakhs and the balance shares valued at Rs 255 lakhs will be offered to the public. The issue will be underwritten by financial institutions and brokers. Necessary land has been acquired and the building construction has commenced. The company expects to commission the plant by the middle of 1976. The public issue, of equity shares of Rs 255 lakhs, is scheduled for the end of January 1975 and is being managed by H.L. Financial Consultants and Management Services Private Ltd (FICOM), Bombay.

### Dividends

(Per cent)

| Name of the company        | Year Ended        | Equity dividend declared for |               |
|----------------------------|-------------------|------------------------------|---------------|
|                            |                   | Current year                 | Previous year |
| <b>Higher Dividend</b>     |                   |                              |               |
| <b>Monogram</b>            |                   |                              |               |
| Mills                      | December 31, 1973 | 15.0                         | 10.0          |
| Shree Yamuna Mills         | December 31, 1973 | 8.5                          | 6.0           |
| Tarun Commercial Mills     | December 31, 1973 | 17.0                         | 14.0          |
| <b>Same Dividend</b>       |                   |                              |               |
| Sree Rajendra Mills        | March 31, 1974    | 12.0                         | 12.0          |
| Cooper Engineering         | June 30, 1974     | Nil                          | Nil           |
| Jaipur Metal & Electricals | March 31, 1974    | Nil                          | Nil           |
| Kankarrah Co.              | December 31, 1973 | Nil                          | Nil           |
| <b>Reduced Dividend</b>    |                   |                              |               |
| Hindustan Sugar            | June 30, 1974     | 6.5                          | 9.0           |
| Indo-American Electricals  | March 31, 1974    | 6.0                          | 12.5          |
| Jayant Paper               | March 31, 1974    | 8.0                          | 12.0          |
| Auckland Jute              | March 31, 1974    | Nil                          | 5.0           |
| Spencer & Co.              | June 30, 1974     | 11.0                         | 20.0          |
| Sri Krishna                |                   |                              |               |
| Rajendra Mills             | March 31, 1974    | 5.0                          | 10.0          |
| Hooguly Flour Mills        | December 31, 1973 | 10.0                         | 25.0          |
| Saurashtra Cement          | June 30, 1974     | Nil                          | 15.0          |
| Upper Ganges Sugar         | June 30, 1974     | 12.0                         | 16.0          |

## Licences and Letters of Intent

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act 1951 during the month of September 1974. The list contains the names and addresses of the licences, articles of manufacturer, types of licences viz New Undertaking (NU), New Article (NA), Substantial Expansion (SE), Carry On Business (COB) and Shifting—and annual installed Capacity. Details regarding letters of intent revoked, rejected or surrendered are also given.

### Licences Issued

#### Metallurgical Industries (Ferrous)

M/s Rajhans Steel Ltd; 16, Ganesh Chandra Avenue 6th Floor, Calcutta-33.—(Mihijan, Santhal Parganas, Bihar)—Alloy Steel Castings—900 tonnes p.a. Spheroidal Castings—900 tonnes p.a. Manganese Steel Castings—1,200 tonnes p.a.—(NU)

M/s Modi Steel Wire Mfg. Co., Modi House, 10-B, Kasturi Ranga Iyenger Road, Alwarpet, Madras 18.—(Madras-Tamil Nadu)—Mild Steel Wire of 18 gauge & Thinner (Galvanised of otherwise)—3,700 tonnes p.a. ACSR Core Wires, Pre-stressed concrete wires, Spring Steel Wires, Cycle Spoke Wires, Alloy Steel Wires, and Low Carbon Galvanised & Un-galvanised steel Wires.—6,300 tonnes p.a.—(NU)

M/s Industrial Steels, G.T. Road, Miller Ganj, Ludhiana.—(Ludhiana-Punjab)—Steel Casting—2,000 tonnes p.a. Stainless Steel Castings; Heat Resistant Castings; Shell Moulded Castings and Alloy Steel Castings—2,500 p.a.—(NU)

M/s Kaveri Structural, 'Sire Mansion', 123, Mount Road, Madras.—(Tiruchirapalli, Tamil Nadu)—Pressure Vessels (*New Articles*) Heat Exchangers.—1,200 tonnes p.a. (N.A./S.E.)

M/s Allied Engg. Works, 5713, Industrial Area, Wazirpur-Delhi.—(Delhi)—Bright Bars—510 tonnes p.a. Conduit Pipes—80 tonnes p.a.—(COB)

M/s D.G. Steels & Alloys, 5-3-667, Topkhana, Near Usman-ganj, Hyderabad.—(Hyderabad-Andhra Pradesh)—M.S. Ingots, Quality Carbon Steels; Forging quality carbon steels; Cold Heading quality Carbon steels; etc.—4,000 tonnes p.a.—(COB)

M/s Hindustan Steel Forgings, Rajpura, Punjab.—(Rajpura-Punjab)—Closed Die Steel Forgings—525 tonnes p.a.—(COB)

M/s Asian Steel Industries Ltd; Moulali, Hyderabad.—(Hyderabad-Andhra Pradesh)—Stranded Wire—925 tonnes p.a.—(COB)

M/s Machine Techno (Sales) Pvt. Ltd; Jindal House, 8-A, Alipore Road Calcutta.—(Calcutta-West Bengal)—Mild Steel (Black Wires)—2,000 tonnes p.a.—(COB)

M/s A.K. Corporation Ltd; 93, Park Street, Calcutta.—(Vishakhapatnam-Andhra Pradesh)—Tin Containers (Above 18 litres)—100 tonnes p.a.—(COB)

M/s Swastik Ispat Ltd; 18-Naryan Dhurn Street, Bombay.—(Satpur-Nasik-Maharashtra)—M.S. Ingots; Electrode quality Carbon Steels; Forging quality carbon steels; cold heading quality carbon steels; etc.—18,000 tonnes p.a.—(COB)

M/s Godavari Steels (Pvt.) Ltd; c/o Sreenivasan Finance Corpn., Devichauk, Rajametry.—(Devichouk-Andhra Pradesh)—M.S. Ingots; Electrode quality carbon steels; Forging quality carbon steels; etc.—9,000 tonnes p.a.—(COB)

M/s S. P. International Pvt. Ltd; 3-A, Focal Point, Dhan-dhari Kalan, Ludhiana.—(Ludhiana-Punjab)—Mild Steel Wires (Ungalvanised)—1,250 tonner p.a.—(COB)

M/s Dabriwala Steel & Engg. Co. Ltd; Sector-24, Plot No. 136, Faridabad.—(Faridabad-Haryana)—M.S. Ingots; Electrode

quality Carbon Steels; Cold heading quality carbon steels; etc.—7,000 tonnes p.a.—(COB)

M/s B.R. Harman Mohatta (Varunee), Ulhas Nagar, Thana Maharashtra.—(Thana, Maharashtra)—M.S. Ingots; Electrode quality Carbon Steels; Cold heading quality carbon steels; etc.—28,000 tonnes p.a.—(COB)

M/s Haryana Steel & Alloye Ltd; 3/5, Asaf Ali Road, New Delhi.—(Murthal-Sonepat, Haryana)—M.S. Ingots; Electrode quality Carbon Steels; Cold heading quality carbon steels; etc.—18,000 tonnes p.a.—(COB)

M/s Pradyumna Steels Ltd; 112, Chittaranjan Avenue, Calcutta.—(Hoogly, West Bengal)—M.S. Ingots; Electrode quality Carbon Steels; Cold heading quality carbon steels; etc.—27,000 tonnes p.a.—(COB)

Shri Chandra Kant Maganlal Sanghvi, 395/97, Natha Street, Bombay-9.—(Kolaba, Maharashtra)—M.S. Ingots; Electrode quality Carbon Steels; Cold heading quality carbon steels; etc.—18,000 tonnes p.a.—(COB)

M/s Delta Spokes Mfg. Co. Dharam Chand Estate, Devnar, Bombay-8.—(Devnar-Maharashtra)—Carbon Wires (Un-galvanised Bright)—2000 tonnes p.a. High Carbon Wires (Galvanised)—1,000 tonnes p.a.—(COB)

M/s Lauls Pvt. Ltd; 33-B, New Industrial Township, Farida-bad.—(Faridabad-Haryana)—M. S. Ingots; Electrode Quality Carbon Steels; Forging quality Carbon Steels; etc.—9,000 tonnes p.a.—(COB)

Shri K. Dharma Rao & Shri R.C. Mitra, Promoters, Cir-car Steel Pvt. Ltd; 23, Camac Street, Calcutta.—(Vijayawada-Andhra Pradesh)—M.S. Ingots; Electrode Quality Carbon Steels; Forging quality Carbon Steels; etc.—9,000 tonnes p.a.—(COB)

M/s Western India Steel Industries; Prop. Merchant Steel Industries (P) Ltd; Nirmal Nagar, Bhavnagar.—(Bhavnagar Rajkot Road, Sehor, Gujarat)—M.S. Bars, Flats Angles—2,160 tonnes p.a.—(COB)

M/s Ravindra Steel Ltd; 33-B, MIDC Industrial Area, Hinga Road, Nagpur.—(Nagpur-Maharashtra)—M.S. Ingots; Electrode quality carbon steels; Forging quality carbon steels; etc.—18,000 tonnes p.a.—(COB)

M/s Golden Steel Corpn. (P) Ltd; P-35, India Exchange Place, Calcutta-1.—(Liluah, Howrah, West Bengal)—Mild Steel Black Wires—2,600 tonnes p.a.—(COB)

M/s Mahakoshal Steel Inds. Pvt. Ltd; 9-Rajmahal, Churchgate, Bombay-20.—(Raipur-Madhya Pradesh)—M.S. Ingots; Electrode quality carbon steels; Forging quality carbon steels; Cold heading quality carbon steel; etc.—5,500 tonnes p.a.—(COB)

M/s Maharashtra Wire Drawing Co. 64, Peddar Road, Bombay.—(Bombay-Maharashtra)—Mild Steels Black Annealed Wires—2,350 tonnes p.a.—(COB)

M/s Pratap Steel Rolling Mills (P) Ltd; 21/3, Mathura Road, Ballabgarh, Haryana.—(Hyderabad-Andhra Pradesh)—M.S. Ingots; Electrode quality carbon steels; Forging quality carbon steels; Cold Heading quality carbon steel; etc.—18,000 tonnes p.a.—(COB)

M/s Rishabh Ispat Ltd; 82, Joshi Road, New Delhi.—(Solani-Himachal Pradesh)—M.S. Ingots; Electrode quality carbon steels; Forging quality carbon steel; Colds Heading quality carbon steels; etc.—16,000 tonnes p.a.—(COB)

M/s Ganesh Ispat & Alloys Industries Ltd; 9604, Munde-walan, Sadar Thana Road, New Delhi.—(Alwar-Rajasthan)—M.S. Ingots; Electrode quality carbon steels; Forging quality carbon steels; Cold Heading quality carbon steels; etc.—18,000 tonnes p.a.—(COB)

M/s Sarda Industries (P) Ltd; 4-Digamber Jain Road, Cal-

cutta.—(Jaipur/Calcutta-Rajasthan/West Bengal)—Mild Steel Wires—Jaipur Unit—300 tonnes p. a.; Calcutta Unit—100 tonnes p. a.—(COB)

M/s Marathwada Alloy Steels Co. Ltd; 30-Dr. D.N. Road, Fort, Bombay.—(Aurangabad-Maharashtra)—M. S. Ingots; Electrode quality carbon steels; Forging quality carbon steels; etc.—14,000 tonnes p.a.—(COB)

M/s Asian Steel Industries Ltd; Moulaali, Hyderabad.—Moulaali, Hyderabad-AP.—Mild Steel & High Carbon Wires Ungalvanised—9150 tonnes p.a.—(COB)

M/s Rajhans Steel Ltd; 16, Ganesh Chandra Avenue, Calcutta-13.—(Santhal Parganas-Bihar)—M.S. Ingots, Electrode quality steel; Forging quality carbon steels; Cold heading quality carbon steels; etc.—7,000 tonnes p.a.—(COB)

M/s Sri Seetha Ram Anjaneya Durga Steels Pvt. Ltd; Rajahmundry, Andhra Pradesh.—(Tirupathi, Chittoor, A.P.)—M.S. Ingots; Electrode Quality Carbon Steels; Forging quality carbon steels; Cold Heading quality carbon steels; etc.—5,500 tonnes p.a.—(COB)

#### Metallurgical Industries (Non-Ferrous)

M/s Indian Standard Metal Co. Ltd; 1 S.M. Estate, Chinchpokli Cross Lane, Bombay-27.—(Bombay-Maharashtra)—Aluminium Die Castings of sizes above 4 Kgs.—410 tonnes p.a. (after expansion)—(SE)

#### Electrical Equipments

M/s Kirloskar Pneumatic Co. Ltd; Hadapsar Industrial Estate, Poona-13.—(Poona-Maharashtra)—Air Conditioning & Refrigeration Equipment for Transport.—600 nos. p.a.—(NA)

M/s Electronics Corpn. of India Ltd; Industrial Development Area, Cherlapalli, Hyderabad-40.—(Hyderabad-Andhra Pradesh)—Power Line Carrier Equipment—100 nos. p.a. Frequency Shift Equipment—25 nos. p.a.—(NA)

M/s Electronics Corpn. of India Ltd; Hyderabad.—(Hyderabad-Andhra Pradesh)—Nickel Cadmium Cells—50,000 nos. p.a. (after expansion)—(SE)

M/s Philips India Ltd; Shiv Sagar Estate, Block-A, Dr. Annie Besant Road, Worli, Bombay.—(Loni-Poona-Maharashtra)—Variable Gang Condensers—22,50,000 pcs. p.a.—(SE)

M/s Armcess Engineers (P) Ltd; SUP-A 8 & 9, Industrial Estate, Madras.—(Madras Tamil Nadu)—Tap Recorders—10,000 nos. p.a.—(NU)

M/s Electra (India) Pvt. Ltd; Industrial Area, Partapur, Meerut.—(Meerut-UP)—Power & Distribution Transformers upto 33 KV/5MVA—1,50,000 KVA p.a.—(COB)

#### Telecommunications

M/s Electronics Corpn. of India Ltd; Industrial Development Area, Hyderabad.—(Hyderabad-Andhra Pradesh)—Antennae with Feld (of various sizes)—250 nos. p.a. (after expansion)—(SE)

#### Transportation

M/s Sussen Textile Bearings Ltd; National Highway No. 8, Baroda.—(Baroda-Gujarat)—Antifriiction Assemblies for Water Pumps of Automobiles/Tractors—3 lakh nos. p.a.—(NA)

#### Industrial Machinery

M/s Shalimar Wires & Industries Ltd; 27-A, Camac Street, Calcutta-16.—(Uttarpara-West Bengal)—Fourdenier Wire Cloth—1,50,000 sq. meters p.a. (after expansion)—(SE)

M/s Paper Machine Wire Industries Pvt. Ltd; 73, Industrial Area, Nasik, Maharashtra.—(Nasik-Maharashtra)—Burdinier Wire (Metalic and Synthetic)—48,800 sq. mtrs. p.a. (after expansion)—(SE)

Shri Wazir Chand Kawatra, C-44, Cinema Road, Batala.—

(Atlas Engg. Industry) (Gurdaspur-Punjab)—Diesel Engines (Upto 15 HP)—750 nos. p.a.—(COB)

M/s Usha Telehoist Ltd; Princep Street, Calcutta.—(Faridabad-Haryana)—Hydraulic Pumps—80,000 nos. p.a.; Control Valves—60,000 nos. p.a.—(SE)

#### Machine Tools

M/s Wesman Engg. Co. Pvt. Ltd; 1/2, Allenby Road, Calcutta.—(Dum Dum-24-Parganas, West Bengal)—Industrial Furnaces—Rs 6 crores after expansion p.a.—(SE)

#### Fertilizers

M/s National Fertilizers Ltd; C-94, N.D.S.E. Part-II, New Delhi.—(Batinda, Punjab)—Ammonia—2,97,000 tonnes. Urea—5,11,000 tonnes Sulphur (By-product)—8,250 tonnes.—(NU)

#### Chemicals

M/s Shri Ishar Alloy Steels Pvt. Ltd; (Gas Division) Sector-D, New Industrial Area, Sukhalia, Sonwar Road, Indore.—(Indore-Madhya Pradesh)—Oxygen Gas—4,50,000 Cu.M.—(NU)

M/s Phillips Carbon Black Ltd; 160, Jor Bagh, New Delhi.—(M/s Oriental Carbon Ltd.) (Ghaziabad-U.P.)—Carbon Black (Furnace Type)—9,000 tonnes p.a.—(NU)

Shri Kewal Krishan Sethi, Sethi Niwas, C/285, Defence Colony, New Delhi-3.—(Ghaziabad-U.P.)—Oxygen Gas—0.45 M.C.M. Acetylene Gas—0.10 M.C.M.—(NU)

M/s Hercules Chemical & Cardide Ltd; 8-Dalhousie Square East, Calcutta.—(Gokak, Belgaum, Karnataka)—Calcium Carbide—14,850 tonnes—(NU)

M/s Shalimar Paints Ltd; 13-Camac Street, Calcutta.—(Bangalore-Karnataka)—Paints, Enamels, Varnishes & N. C. Lacquers—6,000 tonnes. Synthetic Resins (for captive Consumption only)—600 tonnes.—(NU)

M/s Sturdia Chemicals Ltd; Neville House, Graham Road, Ballard Estate, Bombay.—(Gujarat)—Citric Acid—3,000 tonnes p.a.—(NA)

#### Drugs and Pharmaceuticals

M/s Ranbaxy Laboratories, Pvt. Ltd; Okhla New Delhi.—(Delhi)—Rifampicin Capsules (150 MG)—10 lakhs & (300 MG)—4 lakhs p.a. Rifampicin Syrup—100/mg/5. ml.—750 litres p.a.—(NA)

M/s Chemical Industrial & Pharmaceutical Laboratories Ltd; 289, Bellasis Road, Byculla, Bombay.—(Bombay-Maharashtra)—Trimethoprim B.P.—600 Kgs. p.a. Sulphamethoxazole—3 tonnes p.a.—(NA)

M/s Gluconate Ltd; 23, Camac Street, Calcutta.—(Nagpur-Maharashtra)—Pethidine Hydrochloride—500 Kgs. (after expansion)—(SE)

#### Textiles

M/s Sri Annapurna Cotton Mills Ltd; P-10, New Howrah Bridge Approach Road, Calcutta-1.—(Calcutta-West Bengal)—Cotton Cloth—100 automatic looms.—(SE)

M/s J.K. Synthetics Ltd; Kaml. Tower, Kanpur.—(Kota-Rajasthan)—Nylon Tyre Yarn Fabrics—800 tonnes p.a.—(NA)

M/s Textile Processing Corpn. of India Ltd; Budge-Budge, Calcutta.—(Calcutta-West Bengal)—Processing of Cotton & Blended Textiles—43.5 Mill. mtrs. p.a.—(NU)

M/s Vishwa Bharati Spg. & Weaving Co-operative Society Ltd; Bhiwandi, Thana, Maharashtra.—(Bhiwandi-Maharashtra)—Cotton Yarn—50,280 spindles. (after expansion)—(SE)

M/s Shri Ramalinga Choodambikai Mills Ltd; Tirpur.—

(Tirpur-Tamil Nadu)—Cotton Cloth—200 Automatic looms of indigenous make. (after expansion).—(SE)

M/s The Bihar State Industrial Development Corpn. Ltd; Bandar Bagicha, Patna.—(Siwan-Bihar)—Cotton Yarn—25,000 spindles.—(NU)

M/s The Bihar State Industrial Development Corpn. Ltd., Bandar Bagicha, Patna.—(Madhubani-Bihar)—Cotton Yarn—25,000 spindles p.a.—(NU)

#### Paper & Pulp

Shri R.K. Jain, 123 Guldhar, Meerut Road, Ghaziabad.—(Ghaziabad, Meerut, U.P.)—Packing, Wrapping & Corrugated Papers & Boards—3,650 M.T. p.a.—(NU)

M/s U.P. Straw & Agro Products Ltd; 13-Civil Lines, Bareilly.—(Moradabad-U.P.)—Corrugating Medium—10,000 tonnes p.a.—(NU)

M/s Wainganga Paper Mills Ltd; D-38, Greater Kailash-1 New Delhi-48.—(Balaghat-M.P.)—Pulp & Paper—20,000 tonnes p.a.—(NU)

#### Sugar

M/s The Deccan Sugar & Abkhari Co. Ltd; Dare House, Parry's Corner, Madras.—(Pugalur-Tamil Nadu)—Sugar—2,500 tonnes of sugar cane crushing capacity per day.—(after expansion) (SE)

M/s Sonapat Co-operative Sugar Mills Ltd; Sonapat, Distt. Rohtak.—(Sonapat-Haryana)—Sugar—1,250 tonnes p. day cane crushing capacity.—(NU)

M/s Aruna Sugars Ltd; Pennadam, Distt. South Arcot, Tamil Nadu.—(Pennadam, S-Arcot, Tamil Nadu)—Sugar—4,000 tonnes per day cane crushing capacity.—(after expansion) (SE)

#### Fermentation Industries

M/s Mount Shivalik Breweries Ltd; V & P.O. Bhankarpur, Distt. Ropar.—(Ropar-Punjab)—Beer—50,000 Hecto Litres.—(COB)

M/s Devana Modern Breweries Ltd; Dehri Talab Tillo, Jammu-2.—(Jammu-J & K)—Beer—23,400 Hecto Litres p.a. (COB)

M/s Associated Breweries & Distilleries, Mehar House, 1st Floor, 15, Cawasji Patel Street, Bombay-1.—(Cortalam-Goa)—Beer—20,000 Hecto Litres.—(COB)

M/s Mysore Breweries Ltd; Yashwantpur, Bangalore.—(Yashwantpur-Karnataka)—Beer—50,000 H. Litres. p.a.—(COB)

M/s Aurangabad Breweries Ltd; 118, Jelly Bhavan No. 1, 10-New Marine Lines, Bombay.—(Aurangabad-Maharashtra)—Beer—50,000 Hecto Litres.—(COB)

#### Rubber Goods

M/s Supreme Rubber Reclaimers Pvt. Ltd; 156-A Gollerkeri Street, Mangalore-1.—(Bondel, Mangalore, Karnataka)—Reclaimed Rubber—1,500 tonnes p.a.—(NU)

M/s T. Maneklal Mfg. Co. Ltd; Vaswani Mansion, Dinshaw Vachha Road, Bombay-20.—(Ahmedabad-Gujarat)—Expansion Joints & Flexible Connexions—10 tonnes p.a.—(NA)

#### Letters of Intent

##### Metallurgical Industries (Ferrous)

Shri Rajinder Kumar Aggarwal, G. T. Road, Meeran Ghati, Karnal.—(Karnal-Haryana)—Machine Screws (Self tapping and specialised type)—500 tonnes p.a.—(NU)

Shri Manubhai C. Patel, 21-Meghdoot Society, Kareli

Baug, Baroda.—(Gujarat)—O.T.S. Cans—7,000 tonnes p. Battery Jackets—500 tonnes p.a.—(NU)

M/s Man Industrial Corpn. Ltd; Near Loco, Jaipur.—(Jaipur-Rajasthan)—Ferrous & Non-Ferrous Forgings—6,000 tonnes p.a.—(SE)

Shri Narinder Nayar, Fair Haven, Doongersi Road, Malabar Hill, Bombay.—(Maharashtra)—Specialised Pipe Fittings—4,000 tonnes p.a.—(NU)

Shri N. K. Jain, 190, Civil Lines (North) Muzaffarnagar.—(Alwar-Rajasthan)—Centrifugal Alloy Castings—500 tonnes p.a; Alloy Steel Castings—500 tonnes p.a.—(NU)

M/s Precision Metal Industries, Delhi (Shri Chandra Moha Arya), 8/84, Punjabi Bagh, Delhi.—(Delhi)—Ferrous & Non-Ferrous Tubes—500 tonnes p.a.—(NU)

M/s D. L. Miller & Co. (P) Ltd; 3-Netaji Subhas Road Calcutta.—(Uttar Pradesh)—Ferrous & Non-Ferrous Finned Tubes—500 tonnes p.a.—(NU)

Shri G. M. Surana, c/o M/s Surana Industries, Mahatm Gandhi Road, Secunderabad.—(Andhra Pradesh)—Ferrous & Non-Ferrous Finned Tubes—500 tonnes p.a.—(NU)

Shri Mahinder Kumar Gupta, 245-A, Old Tharagpet, Bangalore.—(Karnataka)—Ferrous & Non-Ferrous Finned Tubes—500 tonnes p.a.—(NU)

M/s Steel Tubes of India Ltd; 27/34, Industrial Estate Indore-3.—(Madhya Pradesh)—Ferrous & Non-Ferrous Finned Tubes—500 tonnes p.a.—(NU)

M/s Samsher Singh, c/o Kuldip Singh & Bros; Hauz Qazi Delhi-6.—(Delhi)—Ferrous & Non-Ferrous Finned Tubes—500 tonnes p.a.—(NU)

M/s B. K. Extrusions, 'Nirman', East West Road No. 2 Juhu-Parle Scheme, Bombay.—(Maharashtra)—Ferrous & Non-Ferrous Finned Tubes—500 tonnes p.a.—(NU)

M/s Ganges Steel Mfg. Co., (India) (P) Ltd; 23/24, Radh Bazar Street, Calcutta-1.—(West Bengal)—Ferrous & Non-Ferrous Finned Tubes—500 tonnes p.a.—(NU)

M/s Andhra Pradesh Indl. Development Corpn. Ltd B-1-174, Fateh Maiden Rd; P.B. No. 13, Hyderabad.—(Andhra Pradesh)—Alloy & Heavy Duty Iron Castings including Auto mobile Castings—15,000 tonnes p.a.—(NU)

Shri S. Maruthasalam, Jey Dry Batteries Pvt. Ltd; 3(1) S.D.R. Colony, Gopichettipalayam, Erode, Tamil Nadu.—(Tamil Nadu)—Dry Cells—60 mill. nos. p.a.—(NU)

M/s Automatic Electric Pvt. Ltd; Rectifier House, 570 Nargaun Road, Post Box No. 7103, Bombay.—(Bombay-Maharashtra)—Current & Potential Transformers of 200 K. V Range—120 nos. p.a.—(NA)

M/s N.G.E.F. Ltd; Bangalore.—(Bangalore-Karnataka)—Thyristors—16,000 nos. p.a; Thyristor Convertors for Industrial Controls—Rs. 250 lakhs; Thyristor Control Systems for Industrial Use—Rs. 250 lakhs p.a.—(NA)

Shri U. K. Choudhry, 314, Jodhpur Park, Calcutta-31.—(Calcutta-West Bengal)—Fan Capacitors—30,000 nos. p.a; Fluorescent & other discharge lighting capacitors—30,000 nos. p.a; Motor capacitors—20,000 nos. p.a.—(NA)

Shri W. P. Karnik, 12-B, Connaught Road, Poona-1.—(Maharashtra)—Mineral Insulated Cables—2 Mill. core metre p.a.—(NU)

Shri Surinder Vasudcva, 109-A, Model Town, Yamuna nagar.—(Jagadhri, Ambala, Haryana)—H. T. Capacitors—70,000 nos. p.a; L.T. Capacitors—25,000 nos. p.a; Medium Frequency Capacitors—20,000 nos. p.a.—(NU)

M/s W. S. Insulators of India Ltd; Madras.—(Bangalore)

Karnataka)—Telemetry Equipment—35 sets p.a.; Power Line  
rier Equipment—40 nos. p.a.—(NA)

M/s Sree Thirumalai Electronics Pvt. Ltd; R. Muthu Goun-  
s Colony, Harur, Distt: Dharmapuri, Tamil Nadu.—  
Dharmapuri-Tamil Nadu)—Metallised/Plain Plastic Film  
capacities—10 Mill. nos. p.a.—(NU)

M/s Pioneer Electric Furnace Manufacturers (Successors  
Electrotherm Industries), G.I.D.C. Industrial Estate, Vithal  
Nagar, Vallabh Vidyanagar, Kaira Distt.—(Anand-  
Kaira-Gujarat)—Electric Melting & Heating Furnaces—25 nos.  
Heat Treatment Furnaces—Rs. 50 lakhs p.a.—(NU)

M/s The General Electric Co. of India Ltd; Magnet House,  
Chittaranjan Avenue, Calcutta.—(Naini-U.P.)—(i) Special  
Purpose Transformers upto 33 KV.—285 MVA p.a.; (ii) Reac-  
tors upto 132 KV—55 MVA p.a.—(SE)

M/s Jyoti Ltd; P.O. Chemical Industries, Baroda-3.—  
(Baroda-Gujarat)—Generators—1,53,600 K.W. for ranges upto  
6000 K.W.—(SE)

M/s Gystronics, Division of M/s Sarabhai M. Chemicals  
& Electronics (P) Ltd; 89-92, Naroda Industrial Area, Ahme-  
dabad.—(Ahmedabad-Gujarat)—Attenuators/Faders—100 nos;  
Pulse Generators—100 nos; Pattern Generators—200 nos;  
Transistor Testors—100 nos; Frequency Counters—100 nos;  
Digital Voltmeters—100 nos; Function Generators—100 nos;  
Distortion Factor Meters—100 nos; Electrophorers Appara-  
tus—100 nos.—(NA)

#### Transportation

Shri Natver G. Oza, 6-Mani Nivas, Lady Hardinge Road,  
Bombay.—(Surendranagar-Gujarat)—Oil Seals—2 mill. nos.  
p.a.—(NU)

M/s Bharat Gears Ltd; Allahabad Bank Building, 17-  
Parliament Street, New Delhi.—(Bombay-Maharashtra)—Crank  
Shafts—30,000 nos. p.a.—(NA)

#### Industrial Machinery

M/s Etscheid India Pvt. Ltd; 1/8, Prince Golan Mohd.  
Road, Calcutta.—(Hoogli-West Bengal)—Cooling Tank type  
KW 250 capacity 258 litres—720 nos; Cooling tank type KW  
300 Capacity 516 litres.—576 nos; Cooling tank type KW 1000  
capacity 1024 litres.—432 nos; Cooling tank type KW 2000  
Capacity 2040 litres. 288 nos; Cooling tank type KW 5,000  
capacity 50—180 nos; Cooling tank type KT 108000 capacity  
10800—48 nos; Cooling tank type KT, 20,000 capacity 20,000  
nos.—(NU)

M/s Gupta Engineering Works, 4-Sidhpura Industrial Estate  
W.V. Road, Goregaon(W), Bombay-62.—(Bombay-Maharashtra)  
Single Bed Cardmatic Hand Knitting Machine—30,000 sets  
p.a.; Double Bee Hand Knitting Machine—15,000 sets p.a.; Rib  
Knitting attachment—15,000 sets p.a.—(NU)

M/s J.K. Synthetics Ltd; Kamla Tower, Kanpur.—(Kanpur-  
U.P.)—Draw Twisting Machines for Synthetic Fibre Industry—  
nos. p.a.—(NA)

#### Machine Tools

M/s Indian Sugar & General Engg. Corpn. (Prop: Sarawati  
Industrial Syndicate Ltd.), Yamunanagar.—(Yamunanagar-  
Haryana)—Press Brakes & Guillotine Shears—50 nos. p.a.—  
(A)

#### Engineering Industries

Shri Vallabh Glass Works Ltd; Anand-Sojitra Road, Vinya-  
nagar.—(Anand-Kaira-Gujarat)—Polyvinyl Butyral Eoils—0.75  
million Sq. meters. p.a.—(NA)

Shri D. Vijayaraghav & Sons, 767, 36th Cross, IV-T Block,

Jayanagar, Bangalore-11.—(Hosur, Dharmapuri, Tamil Nadu—  
Hard Metal & Hard Metal Products—50 tonnes p.a.—(NU)

Shri K-46, 2nd Floor, Connaught  
Circus, New Delhi.—(Khopoli, Kolaba, Maharashtra)—  
p.a.—(NU)

Shri Anil Bahl, 208, Rouse Avenue, New Delhi.—(Faridabad  
Haryana)—Forged Hand Tools—3,000 tonnes p.a. (NU)

M/s Widia (India) Ltd; 8/9th Mile, Tumkur Road, Post  
Bag 2280, Yeswanthpur, Bangalore.—(Bangalore-Karnataka)—  
Hard Metal & Hard Metal Products including Tungsten carbide  
products Allied materials, tipped tools including multi point  
tools & mining tools—52 tonnes taking the post expansion  
annual capacity for civilian use to 100 tonnes p.a.—(SE)

#### Chemicals

M/s Fertilizer Corpn. of India Ltd; Ramagundam Unit,  
P.O. Godavari Khani, Distt: Karim Nagar, Andhra Pradesh.—  
(Andhra Pradesh)—Argon Gas—0.96 M.C.M.—(NA)

M/s Maharashtra Vegetable Products (P) Ltd; Dhulia,  
Maharashtra.—(Dhulia-Maharashtra)—Oxygen Gas—2,50,000  
C.M.—(NA)

M/s Cloth Traders Pvt. Ltd; 253, New Cloth Market,  
Ahmedabad.—(Kalol, Mehsana, Gujarat)—Glyoxal (40%)—  
750 M.T.—(NU)

M/s Government Soap Factory, Bangalore.—(Bangalore-  
Karnataka)—Sodium Tripolyphosphate—30,000 tonnes p.a.—  
(NA)

The Managing Director, U. P. State Development Corpn.  
Ltd; Director of Industries Building, 117/420, G. T. Road,  
Kanpur-2.—(Mizapur-U.P.)—Sodium Tripolyphosphate—30,000  
tonnes p.a. (NU)

Shri M. K. Gupta, 36/1, Punjabi Bagh, New Delhi.—  
(Ranchi-Bihar)—Potassium Chlorate—4,500 tonnes p.a.—  
(NU)

M/s Indian Aluminium Cables Ltd; Kanchenjunga Building,  
(7th Floor), 18-Bharakhamba Road, New Delhi.—(Ghaziabad  
Meerut, U.P.)—Wire Enamels/Impregnating Varnishes—3,000  
tonnes p.a. (NA)

Shri Surjit Singh, 12/26, East Patel Nagar, New Delhi.—  
(Ludhiana-Punjab)—Sulphuric Acid—16,500 tonnes p.a.—(NU)

M/s Universal Chemicals & Industries Pvt. Ltd; 317,  
Neelam, 3rd Floor, 108, Worli Sea Face Road, Bombay.—  
(Thana-Maharashtra)—Sodium Chlorate—1,500 tonnes p.a.—  
(NA)

#### Drugs & Pharmaceuticals

M/s Indian Drugs & Pharmaceuticals Ltd; N-12, N.D.S.E.  
Part-1, New Delhi-49.—(Andhra Pradesh)—Indomethacin  
Capsules—60 mill. nos. p.a.; Sulphamethoxy Pyridazine tablets—  
100 mill. nos. p.a.; Frusemide Tablets—25 mill. nos. p.a.;  
Methyl Depa Tablets—20 mill. nos. p.a.; Phtalyl Sulphathiazole  
Tablets—120 mill. nos. p.a.; B-Complex Forte tablets—40 mill.  
nos. p.a.; Cheable Vitamin tablets—50 million nos. p.a.—(NA)

#### Paper & Pulp

M/s Gogte Minerals, Empress Court, 126, Backbay Recla-  
mation, Bombay.—(Maharashtra)—Dissolved Pulp—30,000  
tonnes. Polynetic Staple Fibre—27,000 tonnes p.a.; Carbon  
Disulphide (intermediate for item 2 above)—10,000 tonnes—  
(NU)

M/s Abaskar Construction (P) Ltd; 25-Curzon Road, New  
Delhi.—(Nadia-West Bengal)—Wrapping Paper & Fluting  
Media and Liner—4,000 tonnes p.a. (NU)

Shri Mahadeo Prasad Jhunjunwala, c/o. M/s Sohan Lal  
Pachisia & Co., 16-India Exchange Place, Calcutta-1.—

(Hooghly-West Bengal)—Unbleached Paper—4,500 tonnes p.a.—(NU)

Shri Gopal Daga, 168-B, Jamunalal Bajaj Street, Calcutta—(Midnapur-West Bengal)—Paper (Industrial Papers such as Wrapping & Packing Paper & Paper & Boards)—6,000 tonnes p.a.—(NU)

Shri N. K. Dabhiwala, A-1/34, Safdarjung Enclave, New Delhi.—(Karnal-Haryana)—Unbleached Paper—5,000 tonnes p.a.—(NU)

Shri Kamlesh Kumar Rath, F-7-A, Hauz Khas Enclave, New Delhi.—(Pattancherru, Andhra Pradesh)—Writing, Printing Wrapping Papers & Boards—15,000 tonnes p.a.—(NU)

Shri M.P. Khemka, 114, Chittaranjan Avenue, Calcutta-7.—(Purulia/Nadia, West Bengal)—M.G. Kraft, Writing, Printing Duplicating Paper, etc.—7,500 tonnes p.a.—(NU)

Shri Bishwanath Pasari, 3796, Chawri Bazar, Delhi-6.—(Chandrapur-Maharashtra)—Paper—5,000 tonnes p.a. (NU)

Shri Parmeshwar Gauridutt Mittal, Lentin Chambers, 5th Floor, Dalal Street, Fort, Bombay.—(Aurangabad-Maharashtra)—Kraft Paper—5,000 tonnes p.a.—(NU)

Shri Mayank Kumar Poddar, 24/B, Park Street, Calcutta.—(Midnapur-West Bengal)—M.G. Kraft Paper—7,500 tonnes p.a.; Wrapping Paper, M.F. Paper including Bond Paper, Tissue Paper, etc. 7,500 tonnes p.a.; Total: 15,000 tonnes p.a.—(NU)

Shri Chiranjilal Biyani, N-203, Greater Kailash, New Delhi.—(Jhalawar-Rajasthan)—Paper (Industrial papers such as Wrapping & Packing papers and paper boards)—6,000 tonnes p.a.—(NU)

M/s New Prahlad Mills Ltd; 55-Apollo Street, Fort, Bombay.—(Solani-Himachal Pradesh)—Packing and Wrapping Papers and Boards—11,000 tonnes p.a.—(NU)

Shri Narendra Kumar, 20-British Indian Street, Calcutta.—(Purulia-West Bengal)—M.G. Kraft, Writing, Printing, Duplicating, Cartridge, Bank and Bond Papers, etc.—7,500 tonnes p.a.—(NU)

Shri V.L.N. Madhusudan 136/24, P.G. Road, Secunderabad.—(Kurnool-Andhra Pradesh)—Kraft Paper 9,000 tonnes p.a.; Writing & Printing Paper—4,500 tonnes p.a.—(NU)

Shri Bijay Nandan Patodia, 11/1, Heysham Road, Calcutta.—(Karnataka)—Paper consisting of Kraft, Packaging, Wrapping Corrugating Mediums—5,000 tonnes—(NU)

Shri K. K. Maheshwari, 35-L, Jagmohandas Marg, Bombay.—(Kolaba-Maharashtra)—Paper (Corrugating Media/other varieties)—5,000 tonnes p.a.—(NU)

#### Food Processing Industries

Shri J.V. Muthye, Madhu Millan, Patil Wadi, Ranade Road Extn., Dadar, Bombay.—Delhi—High Protein Biscuits for infants—5,000 tonnes p.a.—(NU)

#### Vegetable Oils & Vanaspati

Shri P. C. Mutha, Mg. Dir., M/s Vippy Solvex Products Pvt. Ltd; Saket, Chhota Sarafa, Ujjain.—(Dewas-Madhya Pradesh)—Cotton Seed Oil—20,000 tonnes p.a.—(NA)

#### Rubber Goods

M/s The East India Rubber Works (Pvt.) Ltd; 161, Chittaranjan Avenue, Calcutta-7.—(Lilloah, Howrah, W-Bengal)—Transmission Belting—504 M. tonnes p.a.; Conveyor Belting—1,080 M. tonnes p.a.—(SE)

M/s Premier Tyres Ltd; Merchant Chamber 41, New Marine Lines, Bombay.—(Kalamassery-Alwaye, Kerala)—Camelback & Repair materials—2,500 tonnes p.a.—(NA)

#### Glass

M/s Modern Fibre Glass Manufacturing Co., 60/61, Madhu-

bhan Apartment, Flat No. 24-A, Worli Hills, Bombay-18.—(Kurnool-Andhra Pradesh)—Fibre Glass—2000 tonnes p.a.—(NU)

Shri Raj Kumar Parshotam Nath Jain, c/o Peeraj Agencic Pvt. Ltd; 5625, Qutab Road, New Delhi.—(Delhi/Haryana)—Fibre Glass—2000 tonnes p.a.—(NU)

Shri M. A. Palaniappa Chettiar, Mg. Director, The Jawahar Mills Ltd; Salem-5.—(Dharmapuri-Tamil Nadu)—Fibre Glass—2000 tonnes p.a.—(NU)

M/s Rahi Glass Ltd; Promoter; N. Chandra, C-50, Defense Colony, New Delhi-24.—(Maharashtra)—Fibre Glass—2,000 M. tonnes p.a.—(NU)

M/s Gujarat Fibre Glass Manufacturing Company, 52/53 Vithal Udyognagar, Kaira, Gujarat.—(Kaira-Gujarat)—Fibre Glass—2,000 tonnes p.a.—(NU)

Shri P. Obul Reddy, 31, General Patters Rd; Madras-24.—(Tamil Nadu)—Fibre Glass—2,000 tonnes p.a.—(NU)

M/s Andhra Pradesh Industrial Dev. Corpn. Ltd; Shakti Bhawan, Ground Floor, B-I-174, Fateh Maidan Road, Post Box No. 13, Hyderabad.—(Menboobnagar-Andhra-Pradesh)—Fibre Glass—2,000 tonnes p.a.—(NU)

M/s Industrial Aides, 96, Basin Road, Post Box No. 2286 Tirubottiyur, Madras-19.—(Dharampuri-Tamil Nadu)—Fibre Glass—2,000 tonnes p.a.—(NU)

M/s Swan Mills Ltd; Hindustan Time House, 12th Floor, Kasturba Gandhi Marg, New Delhi.—(Uttar Pradesh)—Fibre Glass—2,000 tonnes p.a.—(NU)

M/s R. Sen & Company, 10/1, Elgin Road, Calcutta.—(West Bengal)—Fibre Glass—2,000 tonnes p.a.—(NU)

#### Ceramics

Shri J. P. Mehta, Suryamahal No. 1, Bhavnagar.—(Bhavnagar-Gujarat)—Refractory Grade Magnesite—45,000 tonnes p.a.—(NU)

#### Change in Names (Owners/Undertaking)

(Information pertains to particular licences only)

From M/s Sudershan Engg. Pvt. Ltd. to M/s Universal Containers Ltd; Bombay.

From M/s Motilal Padampat Sugar Mills Co. Ltd; Kanpur to M/s Motilal Padampat Udyog Limited; (Sugar Mills Branch) Kanpur.

From Shri G. D. Shah, M/s Siddhartha Steels Ltd; Calcutta. to M/s Siddhartha Ferro Alloys Ltd; Calcutta.

#### Letters of Intent Revoked, Lapsed or Cancelled

(Information pertains to particular letters of intent only)

M/s Burn & Company Ltd; P. Box No. 2, Howrah, (West Bengal)—Agricultural Tractors.

M/s Abohar Cotton Company Ltd; 59, Golf Links, New Delhi.—(Uttar Pradesh)—Reclaimed Rubber.

M/s Vegetable Industries & Products (India) Pvt. Ltd; New Delhi.—(Delhi)—Food & Vegetable Protein Products.

M/s Shri Ambica Machinery Manufacturers (A Division of Shri Ambica Mills Ltd.) Ahmedabad.—(Gujarat)—Petroleum Engines.

M/s Northern Dairies India Ltd; 6, Panch Sheel Marg, New Delhi.—(Rajasthan)—Milk Powder.

M/s Hindustan Copper Ltd; Industry House, 10, Camac Street, Calcutta.—(Rajasthan)—Cryolite.

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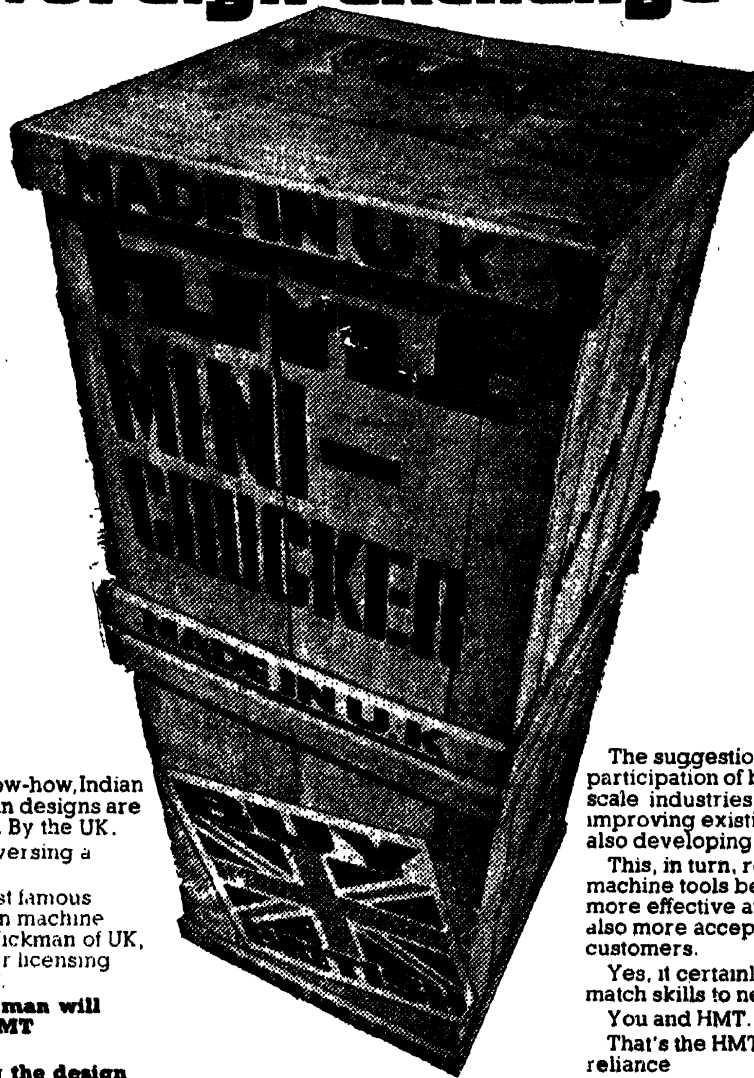


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# THE SCINDIA STEAM NAVIGATION COMPANY LIMITED

**Summary of speech of Shri Krishnaraj M. D. Backersey, Chairman, The Scindia Steam Navigation Co., Ltd., made at the 55th Annual General Meeting of the Shareholders on Wednesday, the 18th December 1974, at Patkar Hall, Bombay.**

You would be pleased to observe that the Company's performance during the year under review has been very good. The Freight and charter hire earnings have risen from Rs. 54.01 crores to Rs. 65.49 crores, increasing the gross profit from Rs. 12.32 crores to Rs. 15.26 crores, leaving a record net profit of Rs. 8.21 crores as compared to Rs. 6.19 crores of the last year.

The Directors have recommended a dividend of 12% of the face value of the shares i.e. Rs. 2.40 per share, this being the maximum possible dividend declarable under the Companies (Temporary Resolutions of Dividends) Act, 1944. The full dividend is subject to tax. The reserves and surplus of the Company stand at Rs. 31.5 crores against Rs. 26.7 crores at the end of the previous year.

The oil prices continued to rise steeply, notably between October 1973 and January 1974, shooting up abnormally the fuel cost of ships. This has caused the Company to suffer undue delays not only in Indian ports but also in foreign ports, adding substantially to operational cost. Shipping being international operation has had to bear the brunt of global inflation, resulting in the rising costs of laboring, labour, oil, port dues, repairs etc. which are beyond the control of shipping. The shipping conferences often had to adjust the freight rates with a view to

neutralising such rise in costs as much as possible.

The Company keeps in check the operational costs, ensuring economy & introducing innovations in cargo handling and ocean transportation, adopting unitisation as far as possible. In its India/U. K. Continent Service the Company provided ships to lift full loads of palletised chests of tea from Calcutta. The Company's vessels also lift palletised tea and rubber from Cochin in and rubber from Malaysian ports and Singapore. Consideration is given to lift cotton piece goods in pallets.

The new ships acquired by the Company are designed to carry containers. The Company's vessels in India/U.S.A. Pacific route, have been catering to containerised traffic between Singapore, Taiwan and Hong Kong and the Pacific Coast ports since 1971/72. This facility can be extended to Indian ports as containerised traffic develops from India.

In our tramp sector, the Company's bulk carriers were fully employed, the dry cargo freight market being good throughout the year.

The Company's acquisition programme is going ahead. It took delivery of one Emden-built bulk carrier "Jalvallah" of 53,500 DWT. One bulk carrier of 75,000 DWT is on order with M/s. Scott Lithgow Ltd., Port Glasgow,

expected to be delivered in the last quarter of 1976.

The Suez Canal is likely to be re-opened for navigation before June 1975. Its re-opening depends on how soon congenial political climate is created and necessary international agreements are secured. The utilization of the canal by shipping will depend upon the level at which the Suez Canal dues are fixed.

It is gratifying that our Government have tentatively fixed an ambitious shipping target of 9.64 million gross registered tons, including 1 million tons on order, to be achieved by end of the Fifth Five Year Plan. Such unprecedented expansion efforts call for elastic availability of rupee and foreign exchange resources, facilities to raise rupee and foreign exchange loans on commercially viable basis and special developmental incentives. In this context the Government's decision to discontinue the development rebate is retrograde step. Hitherto development rebate has been the one greatest incentive given to shipping and it has helped the Indian shipping industry to expand smoothly. The initial depreciation allowance proposed as an alternative to development rebate is not an adequate relief. I still feel that development rebate is the only answer to increase the tonnage and to achieve the target set in the Fifth Five Year Plan.

Drydocking and repairing facilities in India should be improved. The development of ports is very vital for efficient handling of the traffic passing through the ports. The traffic at Bombay port has outgrown the port's capacity and extensive development of the port at its present site is not feasible. Therefore, the

proposed building up of a new port at Nhava Sheva across the Bombay harbour, with facilities to berth deep drafted vessels and to handle bulk cargoes and containerised traffic has to be expedited.

I take this opportunity to thank Shri Kamalapati Tripathi, the Minister for Shipping and Transport whose matured guidance and counsel have been of great value to the shipping industry. I would like to record our thanks to Shri P. K. Mukherjee, till recently the Deputy Minister, for his help to Indian shipping.

I have pleasure in welcoming Shri H. M. Trivedi, who has recently been appointed as the Minister of State for Shipping and Transport. I am sure, his rich administrative and shipping experience and knowledge will be of great help to the shipping industry.

Our sincere thanks are due to the Secretaries, Joint Secretaries and other officials in the Ministries of Transport and Finance, the Director General of Shipping and his officials as well as the officials of Transchart for their guidance, help and advice. I also thank the officials of the Shipping Development Fund Committee, Reserve Bank of India and other Government departments for their co-operation and assistance.

I convey our thanks to our patrons, shippers and other well wishers of the Company. I thank the Management, officers and staff, both ashore and afloat, and the agents at various ports for their service and devotion to duty.

## Note ;

*This does not purport to be the proceedings of the annual general meeting of the company.*



Dr. Bharat Ram

Ladies & Gentlemen,

While cordially welcoming you to this 86th Annual General Meeting of your Company, may I wish you all, who are present and all the shareholders, a happy and prosperous 1975.

The Directors' Report and the audited Statement of Accounts for the year ended 30th June 1974 have already been circulated. As you would have undoubtedly noted, the financial record is satisfactory; but it has not been possible to pass on the benefit to the shareholders. On the contrary, the dividend rate is considerably lower than last year, and this is so because of the Companies (Temporary Restrictions and Dividends) Act.

As per the provisions of this Act, Companies cannot pay dividends within India in excess of the distributable profits, which has been specified as one-third of the net profits of the Company for the financial year or an amount equivalent to 12% dividend on the face value of the equity shares of the company and the dividend payable on the preference shares, whichever is lower. According to Government, this restriction on dividends, along with the Additional Emoluments (Compulsory Deposit) Act 1974 and the Compulsory Deposit Scheme (Income-tax-payers) Act 1974 constituted a package to fight inflation.

I feel that the Companies (Temporary Restrictions and Dividends) Act could have been conceived in a more imaginative fashion. The provisions of this Act do not freeze dividends, but in fact result in the reduction of dividend payment. It is, therefore, not comparable with Additional Emoluments (Compulsory Deposit) Act, which impounds additional payments, but does not prohibit such payments being made. While the minimum dividend sum involved is estimated at only Rs 50 crore and is not likely to have an excessive influence on the demand factor, its impact on investment sentiment has been disastrous. Even the stated objective of Government could have been secured if Companies were allowed to pay dividends, as before the Act, but dividend in excess of that permitted by the present Act was to be compulsorily deposited in the company and made payable with ade-

# The Delhi Cloth & General Mills Co. Ltd.

Speech by Dr. Bharat Ram, Chairman, Board of Directors at the 86th Annual General Meeting of The Delhi Cloth & General Mills Co. Ltd., on December 30, 1974 at Delhi.

quate interest, say, 2½% over and above the Bank rate, after a period of two years. This would have given the shareholder the satisfaction of having earned the dividends, and what is more important it would not have had a depressing influence on the new issue market. Similarly, the measure of credit squeeze was imposed rather illogically as it froze the borrowings of companies as on a particular date viz. October 31, 1973. The result of this has been that those companies who had managed their affairs well on that particular date, suffered most. In addition, those companies who had large seasonal requirements like Textiles, Vanaspathi & Sugar, were put to great difficulties.

The high rate of inflation which has overtaken both the developed and developing countries during the last two to three years has provoked policy-makers in devising new forms of controls and regulations, which may help to stabilise the price level or at least minimise its rate of increase. Price-Incomes policy had in a way become a fashionable concept in many countries in the Western Europe, North America and lately in Latin America and even Africa. In reality, however, it did not prove to be a success.

In our own country, we have had the unhappy experience of price controls. These controls have been imposed for years now, mostly on commodities which are essential and where the supply is shorter than demand. We have seen how the very existence of such controls has discouraged investments and how even public financial institutions hesitate to extend loans if the prices are not remunerative. The consequence has been that in the very industries where supplies were required to be augmented, shortage conditions got perpetuated and aggravated.

Let us see why at all we in our country have got into an inflationary situation. It would be well to remember that inflationary pressures had developed even before the hike in oil prices. Whatever may be the causes for inflation in other countries, in India the fall in foodgrains production which is the principal item of mass consumption, was the starting point. The marketable surplus of foodgrains available for urban consumption shrinks in a greater proportion than the fall in production, because the farmers more or less maintain their level of consumption. Thus, even a small reduction in production tends to have a disproportionate impact on price levels. The same or similar kind of effect is produced by reduction in the production of other agricultural commodities like cotton, sugarcane, oilseeds, etc. The agro-based industries constitute the most important segment in our national economy, and their health or otherwise influences the price level of the products which are consumed by the

common man. The increase in the prices of these commodities together with that of foodgrains leads to a rise in wage rates, the link being provided by dearness allowance. The demand-pull inflation which starts in the agricultural sector multiplies itself as it spreads into a cost-push inflation in other sectors.

In my view there are two principal reasons as to why agricultural production has not kept pace with the requirements. Firstly, the failure of monsoons in succession. Secondly and more important, it is because we have not given enough attention to the development of agriculture and the need to free ourselves from the vagaries of monsoon. The level of investment in agricultural development has been inadequate. The agricultural sector, which produces one-half of the national output was allotted less than one-fifth of the total Plan outlay in the Fourth Plan and less than one-sixth in the Second and Third Plans. The result is that we are exposed to floods and droughts, and are short of fertilizers, pesticides, electric power and a host of other inputs which contribute to production and productivity.

Other essential articles like cement, paper, which are in short supply are due to the wrong policies followed by Government both in respect of fixing prices at unremunerative levels and virtually discouraging people who are in a position to go ahead with expansion plans. The situation is particularly sad and tragic because in these industries we could have easily expanded production with domestic resources, and there was no question of importing either foreign capital or know-how.

Over the years the shortages in wage goods industries as much as in certain basic industries and in infrastructural facilities have occurred, primarily because management of both public and private sector undertakings is never allowed a free hand. While the former is hamstrung by bureaucratic regulations, the latter is subjected to an unbelievable mix of ideology and regulations in detail with the result that the overall major objective of speeding up economic growth has not been achieved.

We are thus faced today with a critical situation where two opposite forces are at work. On the one hand, the back of inflation has not yet been broken, and on the other there seems to be a beginning in the decline of economic activity, which may develop into a recession. I personally feel that the anti-inflationary measures adopted by Government were necessary, even though they have caused some difficulties. The question is as to how long Government should stick to these measures, and whether some adjustments have to be made, if only to ensure that the measures do not become counter-productive and result in creating new prob-

lems like wide-spread unemployment which would be very dangerous. When dealing with two contrary trends, a delicate balance has necessarily to be struck. Stability and growth represent two sides of the same coin. One cannot be pursued at the expense of the other. This is neither possible, nor desirable. What is called for is the reorientation of policy on the principle that economy lies not so much in reducing expenditure, but in making wise expenditure decisions. It is, therefore, necessary in my opinion that while retaining a certain amount of control over credit, the Government must at the same time encourage investment in industries. Even the latest report of the Reserve Bank of India on Currency and Finance has pointed out that — "the problem of price inflation is also to be attributed in wider context, to the long-term factors of low investment and low production". To achieve the maximum benefit out of investment, priorities for investment must be in agro-based industries and wage-goods industries. The other important field of investment must be in power, because a country has lost a good deal of production due to the existing capacities not being fully utilised because of power shortage.

If our country is now passing through a phase of unrest, the economic situation is largely responsible for it. This unrest is taking quite a few forms and is even manifest in Parliament and in some State Assemblies also. None of the unhappy events are isolated incidents, all are connected like the links of a chain. Just as sedatives can temporarily relieve pain, but cannot cure a disease, the problems in our country have to be squarely met, instead of taking *ad hoc* measures and living with the hope that a good monsoon will do the trick.

I should, however, not be mistaken to be a pessimist. The problem of inflation cannot be solved merely by intellectual analysis or an intellectual answer. It requires a disciplining of thinking and behaviour on the part of all economic and political groups. There is need for every one of us doing a bit more than what we are doing now, so that the capabilities are increased and the long term objectives which we have set for ourselves and for the nation are thwarted.

Let me conclude by thanking you and every worker and all members of the staff for the contribution they have made to the successful operation of the Company during last year. It is my trust and hope that the Company will prosper further with the continued support.

NOTE: This does not purport to be a record of the proceedings of Annual General Meeting.

# SAKTHI SUGARS LIMITED

Regd. Office :  
28, Race Course Road,  
Coimbatore-641018

Factory :  
Sakthinagar, Appakudal,  
Coimbatore Dt.

**Text of speech by Thiru N. Mahalingam, B.Sc.,  
M.E., Chairman, Sakthi Sugars Limited, deliv-  
ered at the 13th Annual General Meeting held  
on 23rd December, 1974.**

I welcome you all to the 13th Annual General Meeting of your Company which marks the end of a successful decade of operations and the beginning of a new era of further dynamic expansion. The Annual report and the accounts of the year ended June 30, 1974 have been with you for some time and I shall take them as read.

## Working Results

Regarding the performance of your company I would like to point out that Sakthi Sugars has again succeeded in increas-

cane crush because the crushing operations could not be maintained at the level visualised earlier. While regretting the delay in crushing we are happy to state that in regard to the quantity of cane crushed, your factory is the third largest for any sugar mill in the country and for sugar production the second largest for any single unit in 1973-74. I am glad to say that the newly erected plant and machinery are functioning satisfactorily and their efficiency have been fully established after some teething trouble with the crushing rate being currently of rated capacity.

The output of sugar at 67,776 tonnes against 59,972 tonnes in 1972-73 is nearly double that of any other sugar mill in Tamil Nadu and Sakthi Sugars is the first factory in this State to achieve a capacity of 4000 tonnes daily. The net profit before depreciation and taxation for 1973-1974 has recorded a big rise to Rs. 104.72 lakhs from Rs. 74.99 lakhs in the previous year in spite of higher interest charges, a bigger wage bill, and higher cost of cane.

The amount set aside for depreciation is Rs. 46.99 lakh (Rs. 34.66 lakhs) and Development rebate Rs. 32.67 lakhs (Rs. 7.15 lakhs). With a large claim towards depreciation and development rebate, there is no liability for taxation. A provision of Rs. 9 lakhs was made on this account on the last occasion. The allocation to preference share redemption reserve is Rs. 50,000 (same) and dividend reserve Rs. 18.45 lakhs (Rs. 22.50 lakhs). Your Directors have

recommended the payment of a dividend of 12% taxable on equity capital, as against 15% taxable previously, because of the restrictions recently imposed by the Government on the distribution of profits. The expeditious implementation of the expansion scheme of the sugar mill and the diversification of the output of the distillery, have been responsible for the big increase in the cost of gross fixed assets to Rs. 958.58 lakhs at the end of 1973-74 from Rs. 567.55 lakhs on June 30, 1973 and in not fixed assets too Rs. 752.45 lakhs from Rs. 408.34 lakhs. The heavy capital outlay of Rs. 391.93 lakhs in plant and machinery, labour colony and other facilities is an eloquent testimony to the meticulous planning of the implementation of the expansion programme and allied projects. You will be proud to know that the capital outlay in 1973-74 represents hereby 41% of the total investment incurred by Sakthi Sugars in fixed assets in a decade and the full benefit of the newly created facilities will be derived in the current and coming years.

## Distillery

The distillery too functioned efficiently with the output of rectified spirit rising to 12.99 million litres from 9.29 million litres. But the prices realised were not quite remunerative and there could therefore not be any significant increase in total earnings. The position in this regard has changed significantly latterly and the distillery will be stepping up further its output and its earnings substantially in 1974-75, not withstanding the slight dislocation caused by an accumulation of stocks of alcohol following the re-introduction of prohibition in Tamil Nadu, from the beginning of September. I am happy to in-

form you that there is now a good offtake of alcohol with the needy industrial consumers in the neighbouring States gobbling up available supplies. The prospects for the current year should therefore be considered quite promising.

## Prospects for 1974-75:

The 1974-75 crushing season will stand out as an outstanding landmark in the history of the sugar industry at a time when the Government is straining every nerve to maximise foreign exchange earnings with a stepping up of exports in order to meet the heavy cost of imports of foodgrains, crude oil and allied products. The exports during 1973-74 was only of the order of 4 lakh tonnes and for 1974-75 the exact quantum of export has not yet been decided. The international price of sugar has been increasing sharply from 100£ per tonne to 700£ and it is possible to sell even 10 lakh tonnes of sugar annually for the next three years if the Government of India can conclude forward sales for even three years at an agreed price.

It is rather surprising that the policy of the Union Government this year is not properly tuned towards increased production. The cost of cultivation to the ryot has increased phenomenally due to the escalation in the prices of diesel oil, electricity, fertilizers, as well as due to higher labour charges. Consequently, the net earnings of the farmer has fallen very much had the general tendency is to go in for paddy in the place of cane as paddy now gives a higher return per acre to the grower. Your directors considered this matter and requested the Union Food Minister and the Sugar Directorate, several months ago to fix a minimum price of Rs. 125/- per tonne



**Thiru N. Mahalingam**

the quantity of cane crushed to 8.13 lakh tonnes from 6.88 lakh tonnes in 1972-73 which is a new record for the factory. There were no delays in deliveries by machinery suppliers and hence the programme could be completed only by the end of the year, this year, instead of January as scheduled resulting in some inconvenience to the ryots in the matter of

of cane for a recovery of 8.5%. However, the suggestion has not been accepted and the Government have only fixed a price of Rs. 85 per tonne of cane for a recovery of 8.5%.

The levy sugar price fixed at Rs. 2.15 per kg. is still sought to be maintained at a low level when the price of rice has almost doubled in the last six months. On the basis of a minimum price of Rs. 85 per tonne for a basic recovery of 8.5% the statutory price for your factory works out to Rs. 94 per tonne. However, your directors have thought it fit to start the season by giving a price of Rs. 110 per tonne.

I am convinced that unless a suitable forward looking policy is evolved and a price of Rs. 125 per tonne of cane for a basic recovery of 8.5% for 1975-76 is announced early, planting of the required scale may not take place and there may even be a decline in the area under cane. I would even say that the all-India production of sugar for 1975-76 may fall sharply to 32 lakh tonnes if an immediate decision on the lines indicated above is not taken.

In regard to excise duty rebate I welcome the present scheme of full excise duty rebate in October and November. However, I feel that a more liberalised approach is essential to make the factories crush even in the low recovery months of June and July so that more sugar can be produced.

#### **Tamil Nadu:**

The achievement of sugar producers in the private and co-operative sectors has been highly creditable and it is no exaggeration to say that even the marginal increase in production in 1973-74 to 39.5 lakh tonnes for all-India from 38.72 lakh tonnes in 1972-73 would not have been possible but for the jump in the output of Tamil Nadu by 1.32 lakh tonnes to a new peak of 4.66 lakh tonnes. In spite of the difficulties relating to the avail-

ability of cane and the dissatisfaction expressed by the growers over the policy of the Government in regard to the fixation of the cane prices, the production of sugar mills in Tamil Nadu in 1974-75 is likely to be further higher at 5 lakh tonnes on account of good planting done in 1973-74 even though all-India output is placed at not more than 38 lakh tonnes. This tempo of development can be sustained only if the private sector is also allowed to play its due role.

As Tamil Nadu is a surplus State we have to sell our sugar in Calcutta and other North Indian Markets for which a transport charge of Rs. 18 to Rs. 20 per quintal has to be incurred. Due to this factor, the free market realization of the South Indian Sugar Mills when compared to those of the North is lower by about Rs. 20 per quintal. It will be an effective incentive if the Tamil Nadu Government can give some concession in the purchase tax atleast in respect of the sugar sold in the North Indian Markets.

Your Directors are fully aware of the new opportunities available to the industry and Sakthi Sugars has succeeded already in developing a large-sized complex. With the completion of the 4000 tonne programme, it is possible to maximise crushing operations during the peak of the season and improve the recovery of sugar. Hence, your Directors feel that in the current year your factory has to concentrate on improving this efficiency of the existing plant and machinery so that the management can be in a position to implement expansion to 5000 tonnes easily. The intention presently is to avoid crushing in the hot season when maximum recovery can be secured.

#### **Furfural Project:**

The preliminary work connected with a project for manufacturing furfural with foreign technical know-how, is being done and the details of this

big project will be placed before you for consideration at the appropriate stage. You will readily agree that all these activities will result in the development of a huge integrated complex in the Sakthi Nagar area and lead to the effective use of the by-products.

#### **Labour Management Relation:**

I am indeed very happy to state that during the period under review the workers and the staff gave unstinted co-operation to the management and enabled the factory to function for 332 days without trouble of any kind. Your Directors have nothing but warm appreciation for the staff and workers of the factory for their enthusiastic and voluntary co-operation in all the affairs of the Company. Therefore in the matter of distribution of bonus to the workers they were very responsive to the expectations of employees and sanctioned a bonus of 8.33% an exgratia

payment of 16.67% and a deduction incentive of 15%.

#### **Welfare Measures:**

The Voluntary Health Services Scheme sponsored by your Company, during the year, has been held up because of rejection of the claim for subsidy from the Central Government. However, we are negotiating with the State Government to complete the project on a 50-50 basis and hope to succeed in our endeavours.

The labour colony consisting of 120 houses built at a cost of Rs. 17 lakhs under subsidised Industrial Labour Housing Scheme, of the Government of India was declared open by the Hon'ble Minister Dr. Kalaignar Karunanidhi. There is a proposal for constructing another labour colony of 120 houses in the near future.

#### **Note :**

This does not purport to be a record of the Proceedings of the annual General Meeting.

## **RECORDS AND STATISTICS**

A Quarterly Bulletin of "Eastern Economist" this publication surveys important developments in each quarter in the various fields of the national economy as well as in the world economy, organizes its material in a convenient form and illustrates it with diagrams, graphs and charts. Its features are a business roundup, an analysis of markets and an investment supplement.

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# RECORDS AND STATISTICS

## Energy : its demand and supply

A CONFERENCE on Energy was held under the auspices of the Federation of Indian Chambers of Commerce and Industry in New Delhi on December 18, 1974. The text of the background paper prepared by the FICCI and presented at the Conference is given below :

### Demand and Supply

Energy is required for various purposes like lighting, heating, cooking, running machinery, generating electric power, etc. The primitive sources of energy are firewood and vegetable waste. There are many other basic sources of energy like coal, oil and water power. Electric power generated from steam, wind and water power is another important derived source of energy since industrialisation. During the past decade or two, nuclear source of energy has made its appearance not only in developed countries but also in developing countries like India as well.

The source of energy in India has been traditionally commercial fuels like firewood, dung and vegetable waste, which accounted for more than two-third of the energy supplied in the early years of the Plan period. With economic development, the energy situation in India gradually

so that by 1970-71 commercial sources of energy like coal, oil and electricity accounted for slightly more than half the total supply of energy. In 1970-71, 51 million tonnes of coal were consumed (apart from coal consumed for power generation) in addition to 15.3 million tonnes of oil and 48 billion units (kWh) of electricity. The comparative shares works out as given below.

The shift in the consumption of energy from non-commercial to commercial sources has been observed all the world over. In 1925, the total world consumption of solid fuels was 83 per cent as against 13.3 per cent for liquid fuels, 3.2 per cent for natural gas and 0.7 per cent for hydro-electricity. By 1968 the share of solid fuels was brought down to 36.7 per cent whereas that of liquid fuels was up to 42.8 per cent, that of natural gas up to 18.3 per cent and that of hydro-electricity up to 2.1 per cent. The replacement of solid fuels like coal by petroleum products was particularly prominent in North America and Europe. The chief incentive for this came from the boosting of world supplies of crude oil from new sources in the USA, the Middle East, and the USSR.

### Growth in Demand for Energy

In India, the demand for energy has been rapidly expanding since the beginning of planning. The total energy consumption in two decades of planning has more than doubled. There has been more rapid increase in the consumption of some forms of energy than others. While coal consumption has increased from about 28 million

tonnes to 51 million tonnes between 1953-54 and 1970-71, consumption of oil has increased from three million tonnes to 15 million tonnes and that of electricity from seven million units to 48 million units. There has been further growth in later years. The annual increase in demand for electric power has been as much as 15-20 per cent in some of the States. 10 per cent of the electricity are now supplied to villages. In some of the states such as Punjab, Tamil Nadu, Andhra Pradesh, nearly a quarter of their power output is used for agricultural operations. 1.5 lakh villages have been electrified and 23 lakhs pumping sets have been set up in the villages. Besides, there is a large suppressed demand for electric power in many parts of the country because of the non-availability of power.

The demand for petroleum has been increasing at about 9.4 per cent per annum, and given a greater supply of oil the quantum of demand for oil is likely to come out more explicitly. It has been estimated that by 1978-79 consumption of electricity is likely to go up to 125 billion units from

about 56 million units in 1970-71; Oil consumption for energy requirements are likely to be 27.2 million tonnes besides another 9-10 million tonnes of non-energy requirements for oil. There has been similar increases in the demand for coal which is likely to go more rapidly up in view of the pressing demand for substitution of oil by coal in view of the oil crisis. The demand by the end of the fifth Plan is put at 165 million tonnes although there is a programme only for 135 million tonnes of coal production. The table below gives the anticipated growth in demand.

### Demand Estimates

—These demand estimates are projected on the basis of certain assessments and forecasts regarding shift in technology in different sectors of the economy and the consequent impact on consumption of different types of fuels. The relative cost of different fuels have also been taken into account in projecting these demands by the Fuel Policy Committee in their interim report in May, 1972.

—The growth of demand in these projections is no

|                             | Total Supply of Fuels (in per cent) |               |
|-----------------------------|-------------------------------------|---------------|
|                             | 1953-54                             | 1970-71       |
| <b>Commercial Fuels</b>     |                                     |               |
| Coal                        | 15.43                               | 13.64         |
| Oil                         | 12.80                               | 25.80         |
| Electricity                 | 4.09                                | 12.92         |
| <b>Total</b>                | <b>32.32</b>                        | <b>52.36</b>  |
| <b>Non-commercial Fuels</b> |                                     |               |
| Firewood                    | 44.19                               | 30.97         |
| Dung                        | 10.00                               | 7.14          |
| Vegetable waste             | 13.49                               | 9.53          |
| <b>Total</b>                | <b>67.68</b>                        | <b>47.64</b>  |
| <b>Grand Total</b>          | <b>100.00</b>                       | <b>100.00</b> |

| Anticipated Growth in Demand |         |         |
|------------------------------|---------|---------|
| Unit                         | 1978-79 | 1980-81 |
| Coal (mil. tonnes)           | 164.5*  | 190.5*  |
| Oil (mil. tonnes)            | 36.95   | 42.95   |
| Electricity (billion kWh)    | 125.00  | 150.00  |

\*including requirements of electricity generation of 56.5 mil. tonnes and 66.0 mil. tonnes respectively.

doubt postulated to be very high. The rates of growth postulated between 1970 and 1980 are about 30 per cent per year or more as against an estimated increase in world demand at 5.5 per cent between 1970 and 1980, 8.7 per cent increase in the Far East and 5-6 per cent increase in the advanced countries. Whether such a growth rate can be sustained during this period is, of course, another pertinent question.

#### Per capita Consumption of Energy

—But the per capita consumption in India is undoubtedly very low which needs to be increased by all efforts. It increased from about 492 Kgs. of coal equivalent in 1953-54 to about 694 Kgs. of coal equivalent in 1953-54 to about 694 Kgs. of coal equivalent by 1970-71. Against this, the world average of per capita energy consumption in 1968 was 1810 Kgs. and that in advanced countries was well above 3,000 Kg. the USA's consumption being more than 10,000 Kg. of coal equivalent. While there is a high positive correlation between energy consumption and Gross National Product observed from data regarding various countries, the ratio of energy growth to the GNP growth rate shows wide variations among different countries and also over time as shown by extensive data by experts like J. Darmstadter. However, the need for increasing energy consumption in India cannot be over-emphasised.

—The growth in the requirements of energy has to be set against the existing reserves of different kinds of fuels. In western countries, the change over to commercial fuels, particularly liquid fuels, has brought the current rate of consumption at a fantastically high level. But the centres of energy consumption particularly oil fuels are not necessarily the sources of crude oil. Thus, the USA produced about 500 million tonnes of crude oil per year against the annual consumption of about 750

million tonnes of refined oil products requiring an import of about 250 million tonnes per year. The sources of liquid fuels which have increased in recent decade are generally located away from the centres of intensive energy consumption resulting in the sharp imbalance between demand and supply. Western Europe consumes about 700 million tonnes of refined products, but produces only 60 million tonnes; Japan consumes 37 million tonnes of oil products against an almost negligible crude production at 0.7 million tonnes. It has been said that the current rate of the fantastically high level of consumption in the USA will exhaust its own oil resources by 11 years's time and the world resources by twenty years. The growth of future demand in India must, therefore, be studied against the existing reserves of different fuels.

#### Energy Reserves

—The total coal reserves are placed at somewhat above 110 billion tonnes. Of this, coking coal reserves are about 20 per cent which is considered to be sufficient to meet the growing requirements of the metallurgical industries for a period of 40-50 years; the reserves of non-coking coal that have been categorised so far are likely to last for about 200 years. Of the hydel resources only about 16-20 per cent have been developed or are under development. It has been estimated that during the next two or three decades it would be possible to instal about 80-100 million kW of hydel capacity on the basis of our river system. Oil reserves at about 140-150 million tonnes can last for about 20 years at the current rate of production, and only for 12 years at the projected rate in 1978-79.

—One of the assumptions of the projected demand for fuel by the Fuel Policy Committee was an oil price of \$5 per barrel. This was probably not unrealistic in 1972 when the projections were made. The price of Arabian crude was \$1.98 and \$1.30 in 1970. But

the oil prices started rising in view of the evident desire of the oil producing countries to make the most out of their existing assets, and the prices started rising. In mid-October, 1973, the oil price was \$3 per barrel. But thereafter, it started to increase sharply coming to about \$12 per barrel at present.

—A new dimension has thus been added to the energy supply situation by the sharp increase in prices of crude oil from abroad. The import bill has increased from about Rs. 144 crores in 1972 to Rs. 242 crores in 1973. Since the price increase has been four times since then, to maintain a supply of crude at the 1973 level of 13.4 million tonnes would increase the import cost by four times. If the throughput required for the refinery programme during the fifth Plan is to be applied the import bill for oil products in the fifth Plan is likely to go up, as estimated by the Fuel Policy Committee, from Rs. 3000 crores given in the Plan to about Rs. 9000 crores. The total provision for all imports in the fifth Plan has been specified at Rs. 14,100 crores. Thus, it is simply impossible to meet the import bill for oil products in the fifth Plan at the current oil prices.

—Moreover, the economics of using oil as against alternative fuel like coal has undergone a fundamental transformation due to this price increase. At \$12 a barrel for oil and Rs. 60 per tonne of coal, the relative price of coal and oil has become nearly 1:11 as against a relative heat value of 1:2. This basic change in the economics of using oil due to steep increase in prices of imported oil has more than offset the various advantages claimed for oil in respect of conveyance, cost of transport, storage and efficiency of utilisation. This is the crux of the energy crisis today.

#### National Energy Policy

—The limited resources against the growing demand for various forms of energy in the face of economic deve-

lopment underlines the need for evolving a national energy policy and planning the development of various forms of energy uses and resources on an integrated basis. According to the Chairman of the Fuel Policy Committee, it would be unrealistic to be scared at the high international oil prices and start re-assessing the energy plan on that basis. This is because there are possibilities of producing oil at very low cost given the time to explore and develop oil fields. It is significant to note that current oil prices are roughly 70 times the marginal cost of production in the Gulf Countries according to *London Economist*. Energy planning therefore will consist largely in re-appraising the situation and investment possibilities at alternative price levels and accept for immediate implementation those projects whose essentiality is not dependent on large price changes.

#### Suggestions for Substitution, Conservation, Efficiency, etc.

—One of the objectives of a national energy policy must be the conservation and maximum effective utilisation of commercial energy resources. Other important objectives are substitution of one fuel for another on techno-economic considerations and improving the efficiency of various uses in appliances. Many suggestions in this regard have been made by the Fuel Policy Committee in its interim report and others concerned. More important among these are as follows:

- (i) The basic premise for future energy policy must be the adoption of coal as the chief primary source of energy. This is dictated chiefly by the comparatively large reserves which are known to be available.
- (ii) Oil exploration in India has to be given top priority, particularly in the off-shore areas and selected on-shore regions. The capabilities of ONGC to conduct exploration should be augmented by providing the



with all the technical facilities, trained personnel and modern equipment. This is to be supplemented by exploring the scope for increasing the oil supply through joint ventures in OPEC countries. Advantage should be taken of the complementarities, if any in resource endowments of India and the OPEC countries through bilateral negotiations. In fact, all policies in respect of oil should be geared to the international oil situation with the specific objective of reducing the quantity of oil products to be imported, minimising the total foreign exchange expenditure and ensuring a stable supply of crude and refined oil products.

The scope for substituting one fuel by another should be fully explored. This is mainly to conserve the limited supply of oil available.

) New fertilizer projects should be designed to make use of coal as the feedstock rather than naphtha. This is because the supply of light distillates like naphtha is likely to be in short supply in coming years.

) Fuel oil is an important raw material for the production of high cost petroleum products (such as lubes, bitumen, petroleum coke and wax) with considerable export potential or which can serve as import substitutes. The Fuel Policy Committee is understood to have recommended a complete prohibition of licensing of new industries on the basis of fuel oil and substitution by coal. A selective approach will, however, be preferable. Coal dumps in industrial centres have been sug-

gested as immediate steps for ensuring the supply of fuel to industries which would be based on coal in place of fuel oil. The Fuel Policy Committee has also recommended limitations on the demand for high speed diesel oil through sub-

stitution of long distance movement by rail transport instead of road transport. A Sub-Committee on Substitution of Fuel Oil by Coal is already conducting exercises to assess substitution possibilities in consultation with concerned

industries, their associations, the state governments, coal producers and the railways.

(c) Light diesel oil is used in pump sets for lifting water for agricultural purposes, even in some electrified villages.

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Such pump sets should be quickly changed over to electric power. Moreover, in certain areas in Gujarat, UP, Maharashtra, diesel pumps are used in a geographically compact area. There should be speedy electrification of selected villages in such areas in order to energise the pumps with electricity for saving of diesel oil.

(d) The scope for reduction in consumption of fuel oil is the highest wherever it is used for raising heat, as for power generation and in industrial furnaces. By 1978-79 nearly 3-4 million tonnes of fuel oil can be saved by converting industrial and power generation boilers to the use of coal. The quantity of fuel oil thus released could be used to produce middle distillates by secondary processing such as hydro-cracking of catalytic-cracking. This, it is claimed, would save a quantity of seven million tonnes of crude oil imports and will lead to a substantial saving in foreign exchange.

(e) At the current level of international oil prices all the uses of oil except those in the transport sector can be economically substituted for by coal or coal-based energy forms. For example, in the households the use of kerosene for lighting can be replaced by electricity; the use for kerosene for cooking can be replaced by cooking gas in densely populated urban areas and by soft coke in small towns and some rural areas; in industry for all heating requirements coal is preferable to oil; for lifting water the use of electricity becomes more

economic; in the case of transport the movement of bulk commodities over long distances by rail is preferable to road movement.

(f) The recent exploration in land and off-shore and the discovery of substantial quantities of natural gas indicate that production of fertilizers, methanol and other chemicals could in future be based more economically on natural gas.

(g) Further research and development in appliances such as battery-powered vehicles and fuel cell technology will enable substitution of oil in light vehicle as well as immobile small cells for use in remote villages.

(iv) It is also necessary to conserve the different forms of energy by making available their supplies in the first instance to consumption for essential purposes. Car manufacturers could be requested to improve the efficiency of fuel consumption of the engines to the maximum, as is being thought of in some western countries and suggested by the National Productivity Council. Urban mass transportation should be the objective in place of personal transportation in passenger cars. There is a very high excise duty on automobiles which acts as a curb on the use of motor cars for personal use. To what extent it should be reduced to encourage mass transportation is a pertinent question. If necessary, the measures can be enforced through suitable regulation or by legislation even.

(v) Various measures to improve the efficiency of fuel uses should be taken urgently.

(a) The efficiencies of the

machinery, equipment and appliances should also be increased as far as is practicable from techno-economic considerations.

(b) The Fuel Policy Committee seems to have recommended that a National Fuel Efficiency Service should be instituted as early as possible. This should have centres at various regions and at various industry levels and should be provided with sufficient authority to ensure the right kind of fuel and the optimum level of efficiency as recommended on technical studies.

(c) Steps should be taken to modify or improve the design of the indigenous thermal equipment with the specific objective of reducing the requirements of oil.

(d) There is need for a long term concentrated effort on research and development directed towards seeking and wherever possible, providing alternative and cheaper sources of energy. The Fuel Policy Committee has recommended the undertaking of R & D work on coal gasification and pipeline transport of gas. Work for the development of battery powered light vehicle should also be taken up. There is also need for developing techniques by which energy could be generated on a relatively small scale near the actual places of consumption. When fuel cell technology is well developed, it should be possible to use small cells in remote villages.

(vi) The success of various measures for substitution and conservation of energy will largely de-

pend on the cooperation of all concerned like technologists, the people and the government agencies enforcing these measures. It has to be realised that the cost of creating additional power capacity is currently large considering the additional expenditure required for the development of coal and oil sources. Its impact on poor countries like India is severe.

India occupies a special position in this respect in view of the wide dispersal of its enormous population over lakhs of villages. The cost of distribution of electricity required for economic development of our rural areas would therefore involve gigantic expenditure and effort. The oil crisis with the four-fold increase in prices of imported oil has greatly aggravated this problem for India which has to be faced with the most seriousness of purpose and concerted effort in correct direction in order to avoid all wastes and adopt the substitution dictated on techno-economic grounds. For this purpose, the organisational set up needs to be re-vitalised. The pooling of functions in the new ministry of Energy is a step in the right direction. It is required to review the energy position periodically. Moreover, there should be regional energy policies which should be integrated into a national policy.

#### Alternative Sources of Energy

—The potentialities of additional and alternative sources of energy are well-known to mankind for many years. Apart from the discoveries of new sources of oil and of the sun, the wind, and tide are natural sources of power. Solar energy has great potentials particularly in countries



as India which gets continuous sunshine for a major part of the year. No doubt, it is being currently used by some industrial unit as in the case of the preparation of salt by Tata Chemicals and others. Wind energy generators and devices are expected to play a role in the future supply of energy and significant developments are being made in place or are likely to have taken place in advanced countries. But the role of wind is likely to be small. Building dams to harness the energy is expensive and is applicable only in a few spots where the rise and fall enough to make such projects economical. Wider uses of such energy can be expected only when sufficient technical progress has been made in this direction and the long range transmission of power becomes more efficient.

#### Geothermal Power

Geo-thermal power is expected to be an ideal source because it is clean and its fuel constantly renews itself as in the case of hydro-electric power. These are however available in very few places in the world, hot springs bubble to the surface, or can be tapped in the conventional drilling methods. Experiments however are going on in the advanced countries, with innovative schemes which, if successful, will make geothermal power available to a wide area.

Squeezing oil from tar sands and oil shales are technically feasible and often prove to be an important source of energy. It appears that China has recently adopted some methods to increase oil production from these sources; in China, crude oil production increased from 30 million tonnes in 1972 and 1973, and it is shown that this is inclusive of oil extracted from coal and Technical Research should be diverted more towards this end.

Coal gasification is another source of additional energy. This is produced in a manner similar to natural gas and

has technical possibilities of using in car engines. It would however, be more useful in substituting oil.

Nuclear power seems to be the best hope for solving future energy requirements of the world. Its development is however beset with many problems as actually observed in fission reactors. These problems relate to safety and environmental devices which, it is feared by experts, may never be perfected, in the so-called fast breeders. As regard fusion reactors there are conflicting views as to whether electricity can be produced by this means at all, in view of the fundamental problem of controlling very high temperature so far unknown to man. It is however known that if fusion reactors ultimately prove feasible, as is reported from the breakthroughs achieved in USSR and the USA, unlimited source of power would be available to mankind. Perhaps this is a far cry in India today.

The alternative sources of fuel require considerable research effort for proper development. Whether India can afford the expenses for such research effort is doubtful. There should however be attempts by our technical people, even though limited by funds and technical know-how.

#### Price Policy

There should be a rational price policy in the energy sector. The price fixed for any fuel such as coal, oil or electricity should enable the industry to earn a return of 10 per cent on the investment made. Differential pricing might be adopted in cases of coal of different qualities which should reflect the value of specific quality supplied to the consumers. The producer price of crude produced in India should be at least equal to the long term cost of producing crude in India and the difference from the international price should be collected by government as tax. This is in effect to provide the refineries with crude at international prices.

The general questions be-

fore the conference on the subject of demand and supply of total energy are the following:

Is the current pattern of demand for different forms of energy as revealed by the consumption data economic? Should coal form the mainstay of our energy supply in the near future? If so, to what extent can coal be substituted for oil on techno-economic grounds? How far it is advisable and feasible to shift the consumption of heavy stock oil to light distillates? To what extent can the pace of substitution of coal for oil products be accelerated?

What suggestions can be made for more conservation of scarce fuels—not the use of coking coal limited to metallurgical purposes only? To what extent a non-essential uses of oil and the level of comfort based on current use of oil products can be curbed in the democratic country like India? Is legislation required for the purpose, and if so, at what stage and in which areas and to what extent?

To what extent efficiency of appliances including machinery can be improved for conservation of scarce fuels? Should not more publicity for efficiency suggestions of the NPC be given? To what extent efficiency of different machinery and appliances using fuel be standardised? How to implement the suggestions for wider acceptance?

## II

### Problems of Different Types of Fuel Coal

Coal is by far the world's most abundant energy resource. In our country too, more than half of the energy is generated by coal in one form or the other. This primary fuel has one of the highest forward linkage effects having a direct or indirect bearing on the growth of almost all the industrial activity. Basic industries such as iron and steel depend on coal; more than half of power generation is coal-based; the railway are one of the major

consumers of coal and construction industries such as bricks and cement require coal. Hence the uninterrupted and adequate supply of this important primary fuel is undisputed.

#### Additional Resources

The discovery and development of massive additional resources in the Middle East and North Africa from the 1950s led to a ready availability of cheap oil supply and a gradual erosion in the market for coal which continued till the present time. In our country as well more and more reliance was placed on oil as compared to coal. The railways, one of the major consumers of coal went ahead with their dieselisation of traction and the demand for coal slumped in the 1960s. Industrial use of oil was also on the increase. However, with the recent development in the international oil front, it is becoming clear both from short and long term point of view, coal must be taken as the major primary source to meet the energy requirements.

The national coal reserves are estimated at present at about 111 billion tonnes. This figure may go up when the reserves of the exploratory work are known. We have, therefore, substantial reserves of this primary fuel.

Our problems of coal is, therefore, related more to the anticipated increase in its demand, particularly in view of substitution of oil, and the consequent need to increase its production and to facilitate its transportation. The coal industries position has to be considered in the context of the current supply situation and its requirements in the Fifth and successive Plan periods. The current production of coal in the country is around 81 million tonnes including lignite. The requirements of coal by the end of the fifth Plan have been assessed at 165 million tonnes although a target of 135 million tonnes has been set.

The order of increased projects is quite large. Looked at

in the context of shortfalls in the achievement of target in the third and fourth Plans, this will call for massive organizational efforts and investment. Much of additional demand will come from the electric power and the steel sectors. For this suitable advance action is called for. The current national production of coal is around 81 million tonnes; the target for 1974-75 is 88 million tonnes which has been recently scaled down from 95 million tonnes. It is unlikely that the production target will be achieved.

### Coal Crisis

—The country has been facing unprecedented coal crisis for the last two years. Steel plants, railways, power houses, cement factories, textile mills, tea gardens and others including domestic consumers are facing shortages of coal. Several trains have been cancelled in different railway zones due to scarcity of coal.

—Another problem related to the deterioration in quality of coal produced. India's reserves are largely of inferior qualities. Besides, coal supply to consumers is mixed with shales, stones and other foreign materials. This increases coal consumption in factories and damages the boilers.

If coal is to play the role of the primary source of source energy in the country, it is essential to prepare well in advance a carefully planned perspectives of coal production. The inferior quality coal in the country further underlines the need for suitable action for exploitation of the known reserves under a well-coordinated plan. The development of washeries is an essential part of coal production. Power supply to collieries and washeries should be maintained at an adequate and uniform level and suitable steps taken for an uninterrupted supply.

As the coking coal reserves are likely to get exhausted in about 40 years' time efforts need to be taken now for the conservation of coking coal. Its use for non-metallurgical purposes should be severely

restricted and, if necessary, controlled by legislation.

The requirements of coal for industries is likely to rise steeply in the next two decades about five times the current level, particularly in view of the need for restricting the use of oil in boilers. Location of industries in future years has, therefore, to be carefully planned, which have to be dovetailed into the Plan for coal production and transport. In order to ensure a steady uninterrupted supply of coal to industrial consumers which will be asked to depend more on coal, coal dumps will have to be set up in major industrial centres and regions.

—Separate plans for development of coal mines near Haldia and Pradweep for export to Burma, Bangladesh and Pacific areas without affecting domestic supply have been proposed by the Fuel Policy Committee.

—Research studies should be conducted for studying the feasibility of transportation of coal by pipelines for super-thermal power stations of 1000 MW capacity or more.

—The Fuel Policy Committee has suggested the setting up of a committee to assess the indigenous capacity in the manufacture of coal mining machinery which should study the existing capacity, fix import requirements, take steps to standardise the equipment and plan for production of sufficient quantity of spares which are in short supply.

—The Fuel Policy Committee does not foresee any large size gas plants at pit-heads because of the difficulty of transporting gas for industrial and domestic uses to large distances. In major cities such as Calcutta and Bombay gas plants with smaller capacities are considered to be a viable proposition.

One of the special features of the Indian coal reserves is that it is concentrated largely in the eastern region and to a lesser extent in the north and western region which together account for

nearly 95 per cent of the total known deposits. This means that there should be an adequate and efficient transport system for the distribution of coal to the centres of consumption which are spread all over the country. The development of an efficient transport system for coal assumes a greater importance in the context of the need for substitution of fuel oil by coal in boilers used by industry and for power generation. This is further enhanced by the requirements of soft coke for domestic and other purposes which have to be transported from the Bengal-Bihar coal fields to the urban centres at considerable distances from the coal fields.

—Rail transport seems to be the most economical way of transporting coal particularly to long distances. At present 90 per cent of the coal despatches are by the railways. It is, therefore, essential that the performance of the railways in movement to consuming centres all over the country must be substantially improved. The railways have always pleaded that the wagons required for movement of coal are not inadequate although the minimum guaranteed number of 6600 daily to the eastern and the south-eastern railways has never been achieved by the railways. On the other hand, there has been persistent shortage of wagons for rail movement although currently the situation seems to be somewhat easier than a few months back. The need for augmenting the wagon fleet should be carefully examined and wagon building should be planned well in advance and implemented with the highest priority. The efficiency of railway transport of coal should also be examined by all possible means.

—Transport and coal by railway should have to be suitably supplemented by other forms of transport. Transport of coal by road is now uneconomical except for short distances particularly after the increase in oil prices.

Although India has a long coastline, movement of coal by shipping has not picked up for one reason or the other. The use of inland water transport is limited. The main burden for transporting coal to consuming centres has to be borne by the railways in future years. This underlines the need for streamlining the railway transport system for smooth supply of coal and ensuring the available resources to the centres of consumption. Without proper coordination of the railway movement, efforts at increasing production of coal would not be useful. Transportation of coal must be considered as a part and parcel of our energy policy. Adequate attention must be paid to careful planning of railway transport with respect to augmentation of the wagon fleet, additional line capacity, yard capacity, signalling and communication which would facilitate speedier turnover of wagons.

### Main Issues

The main issues before the Conference in respect of coal are the following:

—If coal is to play a primary role in the supply of energy in future, in what manner should the future exploitation of coal mines be planned to make the best use of the available resources? Are coking coal still be used for non-metallurgical purposes? If so, what are the ways of preventing such national wastes? What suggestions can be made for conservation of coal resources?

—If the use of oil in industrial furnance and power generation are to be reduced to the minimum, what steps can be recommended for ensuring uninterrupted supply of coal to industry and power plants which are located at great distances from coal producing centres? Coal dumps near the industrial and other consuming centres being planned scientifically for this purpose? research being conducted

...ve the efficiency of boiling coal?

Are adequate steps being taken to maintain and increase coal production as anticipated in the fifth Plan? Have proper steps been taken for an uninterrupted flow of power to collieries and washeries been ensured? Is the mining equipment and labour sufficient? Are imports of coal being arranged well in time?

Are proper steps being taken to ensure an adequate uninterrupted flow of coal to consumers by a proper planning of the railway transport?

## Oil

The recent history of economic development throughout the world underlines the importance of oil. The emergence of the automotive age in recent years has proceeded hand in hand with the growth of the petroleum industry all over the world. There has been a significant transformation in the commercial sources as well which has largely changed over from solid fuels to liquid fuels. In India, oil production has grown rapidly. In 1950, a refinery output of 0.21 million tonnes in the country. By the end of the fifth Plan, the output of petroleum products have grown to 19.1 million tonnes in 1973.

Petroleum products have a number of desirable properties. A tonne of oil combined with the virtue of possessing a volume than a tonne of coal while yielding 50 per cent more energy so that transportation costs decline substantially below those of coal. Loading, unloading and storage are also facilitated and oil is subject to less damage in transit than coal. It burns more cleanly and is a more controllable fuel. In many applications, the thermal efficiency is

Before the Plans, most of the demand for petroleum products of India were met by imports. In 1950, against a refinery output of 0.21 million tonnes, consumption of petroleum products was 19.1 million tonnes and im-

ports in 1950 came to 2.99 million tonnes worth Rs 51.8 crores. Crude oil output also increased from 0.26 million tonnes in 1950 to 7.2 million tonnes in 1973.

### Refining Capacity

Most of the refinery capacities were set up during the Plan periods. From a capacity of hardly half a million tonne, the refinery capacity increased to 23.3 million tonnes by 1970. The fourth Plan target for 1973-74 was placed at 28 million tonnes of refinery capacity of which about 25 million tonnes capacity were to come up according to the programme.

The demand for petroleum products has been rising rapidly over the last two decades at a rate of about 9.4 per cent per annum. If consumption is not curbed deliberately the likely demand for oil products is expected to rise over 36 million tonnes by 1978-79. This could be met only by an installed capacity of about 39 million tonnes which is the capacity target set for the fifth Plan.

The requirements of crude oil have risen from 0.2 million tonnes in 1950 to 20.5 million tonnes in 1973. By the end of the fifth Plan a throughput of 36 million tonnes of crude oil is envisaged for the refineries.

The main problem of oil as a source of energy is the supply of crude oil to the refineries. Crude oil output has, no doubt, been increased by exploration activities of the ONGC and Oil India. The maximum output of crude has been in 1972 at 7.37 million tonnes. The fifth Plan programmes envisages a crude output of 12 million tonnes. If the refinery programme of the fifth Plan has to be achieved an import of nearly 24 million tonnes of crude has to be made.

A new dimension has been added in the problem of crude supply by the increase in oil prices by the chief oil producing countries. Imports of 12.3 million tonnes of crude in 1973 cost Rs 144 crores

but by 1973 the cost has gone up to Rs. 242.4 crores for an import of 13.4 million tonnes. There has been further increases of prices since then, and the same level of imports, it is estimated, cost more than Rs 1000 crores at current prices. The import bill of the crude required for the fifth Plan target will on present prices come easily to more than Rs 2000 crores which is evidently beyond the ability of the Indian economy. The impact on the balance of payments position and the foreign exchange required would be prohibitive.

### New Sources

The solution to this basic problem can be met chiefly by finding new oil sources within the country's boundary and off-shore through intensive exploration activity. This is a long term measure. The short term measures should aim at economising the use of petroleum products by various means.

The first suggestion is for reducing the demand for petroleum products by cutting all non-essential consumption. At present there are various types of petroleum products required for different uses. Amongst the major consumers are: road transport, power generation, industry, fertilizer and chemical production, civil aviation, etc. Uses like power generation, transport, fertilizer production and some essential industrial use like Iron and Steel fall in the more essential categories and the scope for substitution or reduction is limited. There is however more scope for reduction of fuel oil in certain industries according to some investigators.

This can be done only on selective basis in view of the urgent need to increase industrial production. Reduction in the consumption of other petroleum products like HSDO, kerosene, motor spirit, etc. has been closely examined by some investigators whose estimate for saving in the consumption of petroleum products is about 20 per cent of the current consumption

of about 23.5 million tonnes.

One way of conserving the oil resources is to reduce the consumption of kerosene oil in the rural areas by alternative sources of energy. Apart from rural electrification, a useful method is the Gobar Gas plant. This should be possible in view of the social benefits of the nutrient production possible from these plants in addition to less atmospheric pollution and has been strongly recommended by the Fuel Policy Committee. Many gobar gas plants have already been set up in the country but not much is known about their actual working or their actual impact on saving in the use of kerosene. These should be more widely publicised among rural people and made readily available in rural areas.

### Hydrocracking

There have been some suggestions for diversion of heavy stocks like fuel oil and re-processing them through a process called 'hydrocracking'. It has been suggested that such diversion can lead to reduction of oil imports by about seven million tonnes and of the import bill by nearly Rs 450 crores. Such proposals for diversion should be carefully studied and given serious consideration.

Conservation of petroleum fuels should also be carefully studied. Thus, increasing efficiency of the appliances, particularly in industries should enable larger savings in consumption of fuels. The National Productivity Council has set up a Fuel Efficiency Service a decade ago to advise the industries as to how to avoid wastage of fuel and energy. This service has benefitted several hundreds of industrial undertakings and has helped training about two thousand engineers in the techniques of efficient utilisation of fuel. There should be greater publicity, if not enforcement through legislation, to persuade industry to adopt these techniques for conservation of petroleum products.

Dieselisation of the

railways should be stopped forth-with and steam traction should be depended on for the future development of railways.

—Certain other measures for immediate conservation of petroleum are being thought of and implemented in certain western countries. Amongst these measures are encouragement of community transport instead of individual transport, restriction on petrol consumption in automobiles and commercial vehicles by specifying limits for the automobile manufacturers, etc. Some of these are being adopted more or less in these countries, and as suggested by the National Productivity Council.

### Pattern of Consumption

—The pattern of refinery production and the pattern of consumption of refinery products do not necessarily coincide. Thus, light distillates such as motor spirit, naphtha, etc. constitute about 17.8 per cent of the production but the consumption was 14.76 per cent of the total consumption in 1973. Production of middle distillates like kerosene, HSDO etc. in 1973 was 51 per cent against a consumption of 47 per cent, and production of heavy ends like fuel oil, lubricants wax etc. constituted only 30 per cent against a consumption of over 33 per cent.

—Alternative sources for extraction of oil should also be explored fully. Squeezing oil from tar sands and oil shales and converting low quality coal to gas are technically feasible. While a tar sand project is known to involve large capital investment, extraction of oil from shales should be promising. China seems to have increased its crude oil production from seven million tonnes in 1963 to about 30 million tonnes by 1972. In 1973, Chinese crude oil production came to a total of 50 million tonnes which it is understood, is inclusive of oil extracted from coal and shale. Serious consideration should be given to this possibility with the

help of technologists.

### Substitution of Oil

—Substitution of oil by other sources of energy should also be explored fully. In rural areas there is extensive use of kerosene for lighting and cooking. Nearly half of the consumption of kerosene is for cooking purpose and about 40 per cent for lighting purposes and 10 per cent for miscellaneous uses such as village street lighting, railway signal lamps, preparation of gas for laboratories in educational institutions, cleaning equipment by the Army, fuel in some small scale units, etc. Construction of gobar gas plants and expediting the rural electrification work for village lighting seem to be the practical possibilities for substitution of kerosene by other sources of energy. Use of kerosene in railway signal lamps can be stopped quickly by substitution of lights fed from the mains or where this is not available by means of portable units powered by dry cells or batteries.

The main issues are :

—Explorations for new oil sources within the shores and off-shores being imperative, the question is whether exploratory activities are carried on sufficiently and efficiently. Are the technical staff adequate in number and sufficiently trained? Are the equipment necessary and sufficient?

—Is it not possible to pursue the new oil findings such as the off-shore ones more vigorously and expeditiously?

—One way of improving the crude supply would be to explore the possibility of joint ventures with OPEC countries. Some beginnings are also made as is reported in Iran. Are we moving sufficiently in this direction through diplomatic propaganda and other activities?

Is the pattern of refinery production economic and efficient? Does it require changes? If so, in what direction?

If the pattern of consumption must necessarily differ from the pattern of refinery

production are there are ways of conversation of particular oil products? If so, what are the fields in which this could be done and what are the means by which it could be enforced?

### Electricity

One of the basic requirements of agricultural and industrial progress is the development of electricity. In India, power generating capacity has been installed during the British days. But the use of electricity was limited, and the per capita consumption in 1947 was as low as 13 kWh. Power generating capacity in 1950-51 was only 2.3 million kW.

—Power generating capacity increased largely during the Plan periods. The capacity increased to 18.87 million kW by 1973-74.

—Despite this increase, per capita consumption of electricity in India is one of the lowest in the world being 113 units in 1973-74 as against 13,000 units in Norway, 6,500 units in USA, 2,300 units in Japan. It is projected to increase to 185 units by the end of the fifth Plan.

—Targets of power generating capacity to be installed during the Plans have never been achieved—there being shortfalls of varying magnitude between 15 to 35 per cent, the shortfall in the fifth Plan however was about 50 per cent.

—Although the physical targets were not achieved actual investment has all through the Plan exceeded the Plan targets.

—Electricity generated per unit of installed capacity has been on the average low. The highest achieved in any year was about 3620 units generated

per kW of capacity. The figures for some power plants are: Nellore 7,900 units; Tata Electric 6,760 units; Bokaro 3,960 units; CESC 3,740 units; Durgapur 2,860 units; Ennore 2,700 units.

—At the beginning of the Plan, about 76 per cent of the power plants were thermal and 24 per cent were based on hydro-electricity. By 1973-74 the share of hydro plants increased to 36.9 per cent whereas that of thermal plant came down to 60.0 per cent and 3.1 per cent of the plants were nuclear. Planned additions of generating capacity during the fifth Plan are 16.55 million kW consisting of 6.42 million kW of hydro plants, 9.42 of thermal plants and 0.71 million kW of nuclear plants.

—The power supply position has been consistently falling short of requirements for nearly two years. The average shortfall in supply has been of the order of 25 million units per day. The shortfall anticipated in November was 31 million units against an all India requirement of 21 million units per day. The point to note is that although there are some states like Rajasthan, MP, Kerala, Gujarat, Bihar, Orissa etc. where the requirements and availability match each other, there is consistent deficit in all the other states. The power shortage in the industrial centres such as Calcutta and Bombay have particularly hit industrial production adversely. The loss in industrial production has been estimated at several crores of rupees. Markets in foreign countries have been lost as in the case of iron manufactures.

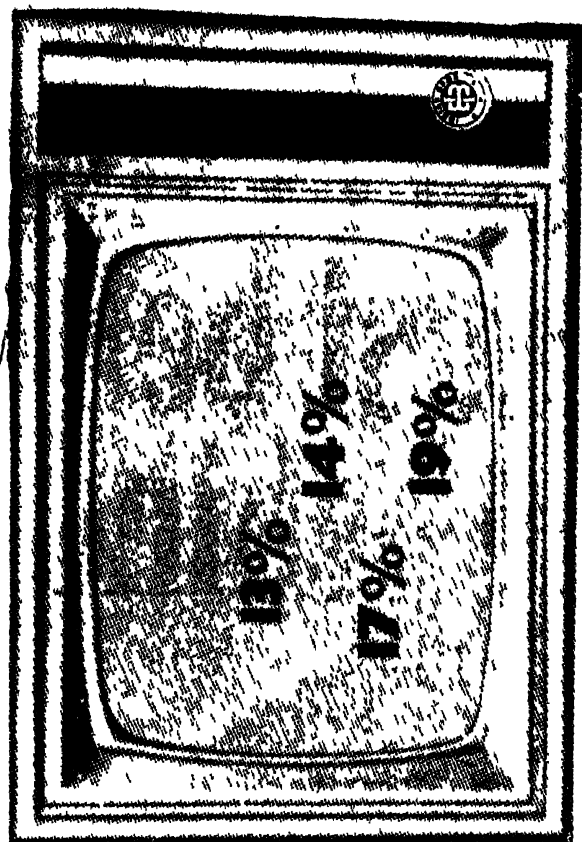
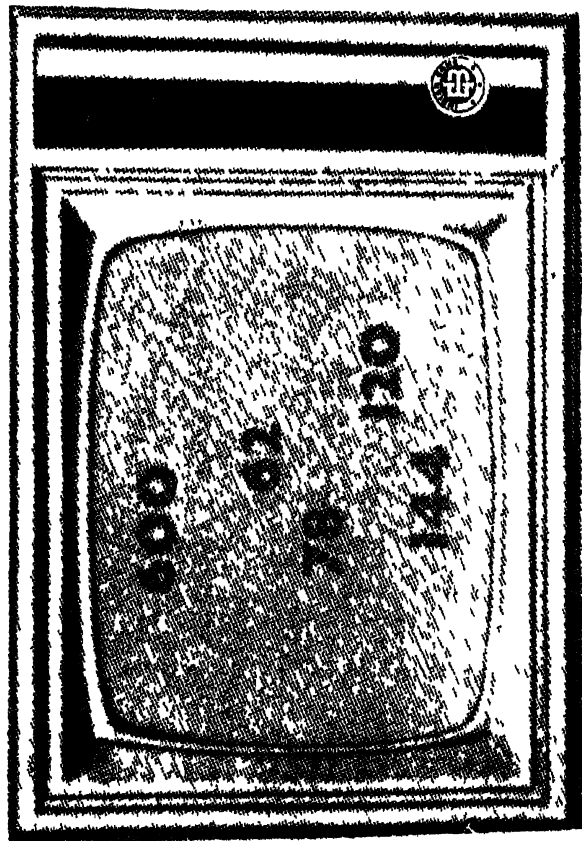
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### Electricity Generated and Investment—1950-69 to 1969-74

|                                 | Fourth Plan |         |
|---------------------------------|-------------|---------|
|                                 | 1950-69     | 1969-74 |
| Planned Addition (mill. kW)     | 18.60       | 9.2     |
| Achievement (mil. kW)           | 11.99       | 4.4     |
| Shortfall %                     | 35.5        | 50.0    |
| Planned Investment (Rs. Crores) | 3196        | 2447    |
| Actual Investment (Rs. Crores)  | 6416        | 2983    |

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| 3000                       | 5016.50      | 5507.75      | 8121.00       | 9910.75       |
| 9000                       | 15049.50     | 16523.25     | 24363.00      | 29732.25      |
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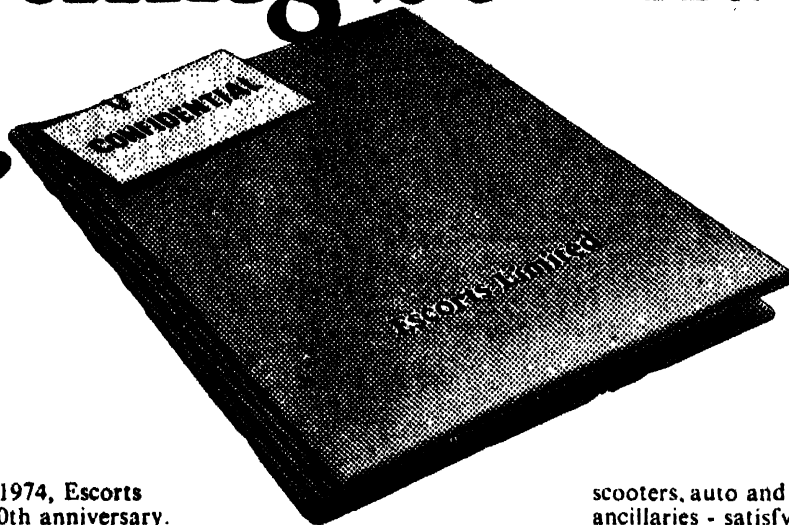
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the shortage of power is shortfall in the achievement of power generating capacity targets. Power projects are generally under the administrative responsibility of the state electricity boards or special authorities except for some projects taken up directly by the centre. Delays occurred in the installation of power generating capacity for a number of reasons such as preparation of feasibility studies, delivery of power generating equipment, diffusion of responsibility for the power supply industry between a number of departments and organizations of the government, etc. Nearly two-thirds of the delay in the installation of plants in the fourth Plan were attributed to the delay in the delivery of main equipment, a quarter of delay was due to non-completion of civil works and the remainder due to delay in finalization of agency, etc.

#### Effective Steps

—The deficiency in power project implementation is due largely to the fact that modern methods of management and performance budgeting were not being utilised. It is understood that effective steps are being taken for evaluation and progress of the implementation of power projects in the ministry of Energy at present. This is expected to remove these important deficiencies.

—The organisational set up of the power supply industry has also been responsible for the delay and shortfall in the achievement of targets. The organisational structure of the power supply industry is complex; the responsibility is diffused; a number of matters coming under the purview of the power organisations involve other departments and ministries of the government which causes delay in taking decisions and implementation. The need for a single centralised agency has been felt and recommended by various study teams and seminars (such as FICCI Power Seminar in August, 1978).

—It is understood that

government have already taken effective steps in this direction by revitalisation of the Central Electricity Authority and the Regional Electricity Boards. This authority should have the ultimate responsibility for formulation of national power policy and planning of power projects; watching their progress and having ultimate responsibility for the implementation. It is also hoped that coordination of inter-state subjects in power supply, administration and development will also be better by the reconstitution of the organisational structure of the power supply industry.

#### Improved Management

—The management of the existing power plants and transmission lines needs also to be improved to a considerable extent. The under-utilisation of power generating capacity already installed leads to national waste. This can be improved only by improving the efficiency of working of power plants and their maintenance. The supply of spares and components should be planned in advance. In particular, the spares for the old plants are often not available. Either a stock has to be kept or some indigenous units should be asked to produce the spares when required by suitable adjustment in the capacity of the plants. Facilities should be provided for overhauling and maintenance to avoid breakdowns and forced outages. There is need for a well-trained staff.

—Transmission losses in India are one of the highest. All-India average of transmission losses in India is about 17 per cent as against 6 to 10 per cent in foreign countries. Amongst the reasons for high transmission losses are inadequacy of inter-connections, inadequate size of conductors, low power factors and lack of integrated operation, unauthorised tapping of energy, sanction of additional loads in advance of adequate transmission facilities, etc. Transmission losses can be reduced by various means such as setting up of high voltage lines, expe-

ditioning the work in respect of inter-state links which have been falling short from Plan to Plan and through better management of the power supply industry. The new organisational set up should be in a position to reduce this loss to a considerable extent through better coordination of work between the states and the central authorities.

—Captive power plants for self-generation and use by industry at present constitute about 10 per cent of the total installed generating capacity. The Fuel Policy Committee has discouraged captive power plants. But in view of the persistent power shortage for two years it has been increasingly felt that important sectors of industry should be allowed to have more captive plants so that production in

some vital sectors does not fall short due to power shortage from the public utilities. Government have been sympathetic to consider proposals in selective cases on merits. There are also cases when industrial undertakings have actually been using for renovation of old and discarded generating plants. This should be encouraged. Even import of usable second-hand plants from abroad should be allowed. On the part of the industry, it will be useful to consider integration into the State Grid System, so that whenever feasible, surplus power if any, could be provided to the state grid.

—As a matter of fact, in view of the acute shortage of power almost all over the country which has been persistent for nearly two years,



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It will be useful for government to consider the possibility of setting up power plants and generating capacity jointly with private entrepreneurs. The private electricity undertakings also should be given assurance that such undertakings should not be taken over within a certain period of time so that it is possible for such units to plan their power supply programme on a definite basis.

## Nuclear Power

—At present, there are two nuclear power plants at Tarapore and Rana Partap Sagar with a total installed capacity of 640 MW. The capacity of the latter is under expansion to 400 MW and the third nuclear station is to come up in Tamil Nadu with a capacity of 470 MW. The percentage share of nuclear energy in India already available is nearly 3.0 per cent. The fifth Plan programme comprises the commissioning of the second unit of the Rajasthan and the two units of the Kalapakkam stations. The Atomic Energy Commission is at present concentrating on the construction of a prototype 40 MW fast breeder thermal reactor in which plutonium and thorium would be used. When the fast breeder reactor come on line in the 1980s more plutonium is expected to be produced to form the basis for generation of electricity of a million MW. The future development of nuclear power is essential to provide power to industries located far away from coal and hydro sources. It is only through nuclear power development that divergencies in resource endowments in different parts of the country could be corrected to some extent. Urgent attention therefore needs to be given to nuclear power development as actually had been in government planning today.

—Moreover, as emphasised by the Fuel Policy Committee, the realisation of the projected nuclear programme depends upon the capabilities of the indigenous industries to produce many sophisticated and heavy

components and special pumps and instruments required for the purpose.

—The Fuel Policy Committee has also examined the power problem carefully and made a number of suggestions:

(a) The requirements of power have been estimated on certain assumptions and are given in table below.

In order to maximise the generating capacity within the funds available and to generate cheap power a larger share of new generating capacity to be added in the next Plan should be derived from hydro stations. Source-wise, generating capacities suggested are given below.

(b) In the overall interest of the economy more and more thermal power stations should be located at pit-heads. In selective cases location of power stations at load centres should also be given due consideration.

(c) The realisation of the nuclear capacities will depend largely upon the capabilities of the indigenous industry to develop expertise for producing many of the sophisticated and heavy components and special pumps and instruments required for nuclear power stations. The nuclear programme will also depend upon the success in finding new uranium deposits by intensive exploration work.

(d) The power projects should be sanctioned and executed in time and sufficient funds be provided for the purpose.

(e) The relative social cost benefit analysis for electrifying different areas should be carried out with reference to the water potential in that area; the possibility of increasing agricultural and non-agricultural production in that area, etc. The rural electrification programme should be considered as an integral part of an overall rural development programme in which the supply of electricity is to be one of the inputs arranged by government.

(f) The electricity tariff should be such as to enable

the electricity undertakings to earn a return of at least 10 per cent on the investments made. There should be scope for discriminating rates of tariffs as between peak period and off period use, agricultural and non-agricultural use, etc.

—The main issues in respect of electric power before the Conference include the following:

—If the implementation of power projects are to be given top priority and not allowed to fall behind the schedule during the Fifth Plan, are the recent changes and streamlining of the organisational structure of the electricity supply industry sufficient to ensure this? What further suggestions could be made for ensuring that power projects come up according to schedule? Are these recent changes take care of the question of sufficient funds for the power projects? If not what suggestions could be made?

—Is the present pattern of generation of electricity by coal based, thermal, hydro and nuclear sources economic and resource-oriented? What modifications need to be made in future planning of electric power? To what extent power generation by oil-based

thermal stations need to be encouraged in the context of the international oil situation and rising oil prices?

—What is the role of nuclear power in future policy for electricity generation? To what extent nuclear power can be provided for industrial development of regions which are short of coal and hydro resources?

—To what extent can the utilisation of installed power generating capacity be improved by better maintenance and management? Have provisions been made for the supply of raw materials for civil works and spare parts and components?

—To what extent rural electrification has been responsible for high transmission losses? What are the methods of reducing transmission losses? Will the provision of high voltage Inter-State links and corrective shunt, capacitors be useful in reducing the transmission losses?

—To what extent captive power plants can help maintain production of industry? Is it feasible to integrate the captive power plants into the State Grid System for use as stand-by source whenever feasible?

### Requirements of Power 1978-79—1990-91

| Year    | Forecast of Energy Consumption (bil. kWh) | Forecast of Energy Requirements (bil. kWh) | Installed Capacity (mil. kW) |
|---------|-------------------------------------------|--------------------------------------------|------------------------------|
| 1978-79 | 100.3                                     | 116.4                                      | 33.6                         |
| 1983-84 | 167.7                                     | 193.6                                      | 53.0                         |
| 1990-91 | 320.4                                     | 370.7                                      | 87.3                         |

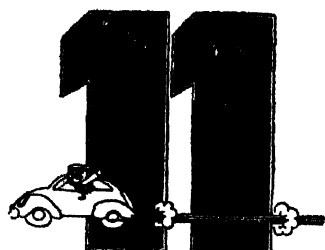
### Source-wise Generating Capacity of Power (Mil. kW)

|          | 1978-79 | 1983-84 | 1990-91 |
|----------|---------|---------|---------|
| Hydel    | 13.00   | 20.00   | 28.40   |
| Nuclear  | 1.02    | 1.90    | 8.62    |
| Thermal  | 19.55   | 31.10   | 50.30   |
| Total .. | 33.57   | 50.00   | 87.32   |

N.B. Thermal stations include coal and lignite based power stations.

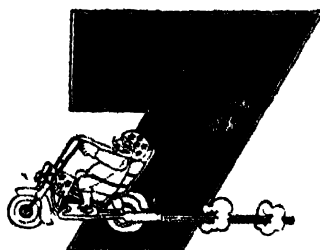


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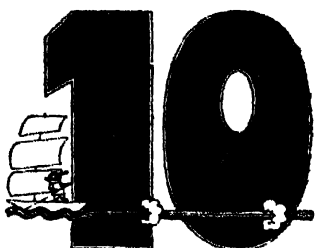
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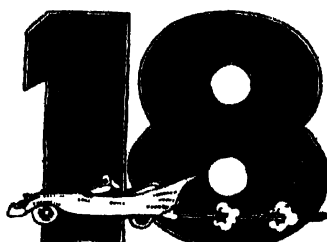
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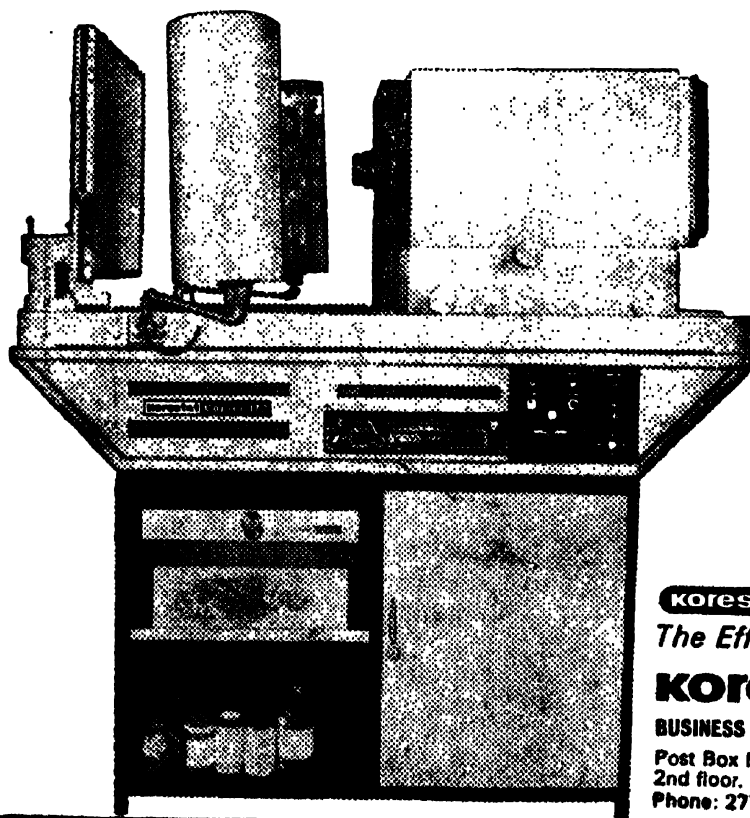
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# Time to think

THE KILLING of Lalit Narayan Mishra has shocked and saddened us. It cannot be otherwise, the political and personal controversies which crowded his last days notwithstanding. The prime minister spoke of him as "large-hearted." That he was and more; for there were many personal attributes of his which made it easy to like him. A children's book version of every one's good uncle, he was, in fact, a very unlikely candidate for assassination.

Yet the fact remains that he was murdered. It is clearly the first duty of the central government not only to bring Mishra's murderer or murderers to book but also to investigate and bring out the full story of the crime to its last detail. This much the ruling party owes to the man and his memory. There is little doubt that it had made full use of him in its politics of power or money and there must always persist the thought that Mishra's life or at least his public life would have ended better had he been less committed to his party's interests in which he no doubt saw his own included.

The prime minister has lost a political colleague who had served her well according to his lights — and hers. It now remains for her to do the dead man a service. For reasons best known to herself she had been resisting a parliamentary or other appropriate or adequate inquiry into allegations of Mishra's involvement in corruption in government or public life. While he was alive there was always a risk that some of those who made those charges would press them in terms of personal vendetta or partisan politics. That danger has disappeared with his death. It should now be possible for the charges made against him to be inquired into in a dispassionate and objective climate of opinion. If Mishra was innocent, the prime minister and her other political colleagues cannot better serve his memory than by making it possible for the facts to be established to the satisfaction of his countrymen. If on the contrary he was guilty, and should this be proved, he is now past material harm, while his name and reputation would not suffer more than it would with all the mud sticking where it has been thrown.

There is, again, a supremely important consideration of public interest which makes it absolutely essential that the allegations of corruption in the central government and the ruling party which have centred in charges against Mishra should be taken out of the context of party politics and investigated and judged in terms of the public's right to be satisfied of the integrity of those whom the democratic process has put in positions of law-givers or rulers. We have lately been seeing how the great democracy of the United States has relentlessly been pursuing the logic of the accountability of the government to the governed and this journal at any rate is not prepared to concede that the citizens of the land of Gandhi are less deserving of this right of people's sovereignty than the men and women of the America of Abraham Lincoln.

Lesser men in Mrs Gandhi's party seem already to be fearful of these larger implications of the Mishra murder. Pathetic prisoners of party politics as they are, they do not seem to know any better than try to make political capital even out of a colleague's violent death. The present president of the ruling party, for instance, is reported to have delivered himself of the opinion that "what was started as an attempt at character assassination has been followed up by cruel and loathsome murder." If his words mean what they seem to do, Mr D.K. Barooah must know more than the rest of us seem to do about who had killed Mishra and why. His predecessor in the party has declared with ill-timed pomposity that fascism has claimed its first victim. It seems as if Dr Shankar Dayal Sharma is convinced that more murders are in the ring. It even sounds as if he is contemplating the prospects with easy fatalism. As the *Times of India* has suggested while commenting on a similarly ill-advised pronouncement by the deputy minister in the Railway ministry, Mr Buta Singh, the nation will only treat with contempt and ridicule any effort on behalf of the ruling party to exploit

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the assassination of Mishra for inflaming public sentiments against political movements in the country which may be exercising their democratic right to protest against the abuse of power by the ruling party or raise debates over issues of public interest.

Deep and large as her personal anguish or private sorrow must be over the tragic death of Mishra, the prime minister should surely lose no time in giving a proper lead to her partymen. She herself has charged "the forces of disruption which have come to the fore lately" with indirectly encouraging an atmosphere of violence "which is responsible for this dastardly crime." The prime minister is certainly entitled to her view when it is expressed in these general terms, although some of us might surely wonder whether forces of disruption had been only "lately" let loose in our public life. The naked and unashamed march of power politics in the government of the country since the split in the Indian National Congress has after all been a rather lengthy process spread over quite a few years.

Whatever may be the verdicts of

particular elections as reflected in the size of majority a party may come to acquire in the legislature, the fact remains that this country can be governed peacefully and constructively only if the government of the day is responsive to the people's needs and accountable to it for its actions in a way which transcends its merely formal right to exercise its power to the limits of its physical or legalistic domination of the legislature. In any political society there will always be disruptive forces. It is up to governments coming into power through the democratic process to ensure that these disruptive forces do not become more than fractional or marginal. This these governments can do only by themselves strictly abiding by the rule of law in letter and spirit. Failure on their part inevitably leads to subversive forces flooding into the mainstream of politics or public life. The prime minister has expressed her hope that "the crime will induce rethinking in the country and redirect political life along saner lines." In this respect as in many others the country's powerful ruling party and its undisputed leader are clearly in the best possible position to give the right lead to the people.

up surpluses for the sugar factories, was the source of substantial losses which were covered by the sale of the free sugar at market prices. It did what the prime minister wanted it to do under the dual pricing system, i.e. subsidising the supply of cheaper sugar to the public distribution system which handed out bulk of it among the poorer sections of society.

This was abundantly clear from the actual price paid by sugar mills for cane purchased by them. For example, the average statutory price fixed by the government for sugarcane in 1972-73 in east UP was Rs 8.80 per quintal but the actual price paid was Rs 12 per quintal. In western UP the average statutory price fixed was Rs 9.29 per quintal but the sugar mills had paid as much as Rs 13 per quintal. The cane prices actually paid by factories in some important sugar producing regions during 1967-68 were between Rs 16 and 17 per quintal while the statutory minimum cane price varied between Rs 7 and 8 per quintal. Since the quota sugar prices were fixed on the basis of the statutory minimum prices of sugarcane it was obvious that the prime minister's charge that the industry has had normal profits in respect of quota sugar and abnormal profits on free sugar was not based on facts.

The policy of controls over production distribution and prices had not succeeded in increasing production in the manner envisaged by the planners since the beginning of the first five-year Plan period. Sugar had been under control for 32 years followed by vanaspati for 27 years, cement for 18 years, fertilisers for 17 years, motor cars for 15 years, textile machinery and newsprint for 12 years and commercial vehicles for 11 years. The industry was rightly against the institution of controls because it invariably operated as a brake on increased investment and consequent expansion in production. It had accepted partial control or dual pricing of industrial products as a second preference because it has operated reasonably well in the case of the sugar industry. In a recent study made by the Federation of Indian Chambers of Commerce and Industry entitled "Towards the dynamic economy" it was suggested that the dual pricing policy should be extended to all the important

lic distribution was sacrificed and the consumer got a raw deal, she added.

## Dual pricing and its merits

WHILE ADDRESSING the Indian Merchants' Chamber at Bombay recently, the prime minister, Mrs Indira Gandhi, was reported to have disfavoured the extension of the dual pricing policy to a majority of the essential consumer products. She said that this policy would be acceptable to the government only if a certain portion of production was made available for vulnerable sections of society at prices which could be subsidised by the sale of the rest of the production. Explaining further as to why she was opposed to increasing the coverage of this policy in the economy she said that she was afraid that the business community wanted to have normal profits on the output surrendered to the public distribution system and abnormal profits on free sales. And in the process the quality of the products meant for pub-

It seemed that the prime minister's fears were founded on ill-conceived notions of the dual pricing policy. It was true that this policy was meant to provide support to weaker sections of society by the supply of essential commodities at cheaper prices. How the prime minister had come to the conclusion that the business community wanted to have normal profits for output surrendered for the public distribution system and abnormal profits for free sales, was not clear. The only commodity in the case of which the dual pricing policy had been adopted in this country and which had worked with remarkable success was sugar. (The cotton textiles industry had not tried dual pricing policy with the same earnestness as sugar). The sugar factories surrendered every year 70 per cent of their output for distribution to the public at relatively low prices which far from throwing

essential commodities because it combined the advantages of protecting the special categories of consumers and at the same time leaving sufficient incentives to industry to expand its productive capacity. This policy ensured that a class of consumers (whom the prime minister termed as vulnerable section) got the consumer products at subsidised prices while industry made up the loss from sales to other sections which were able to pay the market prices.

Even after having recommended the dual pricing policy to the government the ICCI had rightly pointed that price control could be gradually removed if production could be made to increase. The approach suggested was that in the case of commodities which were not under price control, additional licences should be given whenever shortages occurred due to inadequate capacity and every facility should be provided to industry to increase output so as to match demand within the shortest possible time instead of subjecting it to price controls. In the case of commodities which were subject to price control, incentives were needed to make new investment over expansion worthwhile. This could be done either by waiving price control in respect of raw production for a period of three years or by devising different retention prices for different units with a common price for consumers. The pool could be operated in the manner that an investment surplus was generated.

The course of the Indian economy during the past three decades had made it abundantly clear that controls in whatever form were not conducive to increased production. Even Gandhiji had advocated the abolition of controls in the case of cotton textiles immediately after Independence. The government of India had only recently conceded this point while withdrawing distribution and price control on vanaspathi. Here was an industry which had an annual installed capacity of more than 1.2 million tonnes but was not in a position to supply even 0.5 million tonnes of output which was the maximum demand of the country. This was a direct outcome of the controls under which it operated, meaning that the basic constraint, i.e. the restricted supply of raw ma-

terials (oilseeds) was removed due to good harvests for two years, it rightly decontrolled the industry ignoring the FICCI suggestion of partial control or the dual pricing scheme. It did likewise in the case of Ambassador and Standard cars.

The chief merit of the dual pricing scheme was that it ensured the supply of essential commodities to lower strata in society at cheaper prices and fulfilled an essential purpose. The success of the scheme in the case of sugar clearly demonstrated that it could be profitably extended to other commodities but not to cement or steel which were not necessarily consumed

by vulnerable sections of society. The prime minister's misconception that the industry tended to make exorbitant profits both on the quota and free sales of products was not based on facts. However, the units which tended to cheat the consumer through a reduction in quality could certainly be pulled up. The scheme in all fairness needed to be given a trial wherever chronic shortages in supply had persisted over a long period. The performance of the sugar industry had clearly proved that production could be slowly but steadily increased under the dual pricing system as well.

## Difficult ways and means position

THE CENTRAL government is finding itself in a difficult position to meet fully Plan expenditure after overcoming completely the over-runs on non-Plan account even with the mobilisation of record revenue and capital resources. As in the period of emergency in 1971-72 a massive attempt has been made to increase tax revenues with the levy of new taxes in an interim budget. The Railways too presented a supplementary budget. While the Posts and Telegraphs department has been increasing its revenues with higher rates for all its services. In spite of the severe burden imposed on the community the central government is bemoaning all the time that the required resources are not available for all purposes and there will have to be a considerable pruning of expenditure if the overall deficit is not to be allowed to exceed the budget estimate of Rs 125 crores.

The union Finance minister, Mr C. Subramaniam, only, recently indicated that the targets for revenues from direct and indirect taxes were being more than fulfilled. While it will not be correct to base any estimates of revenues on the collections for the first six months of the current financial year, there is no doubt that the budget estimates will be easily

exceeded, the additional amount available on revenue account being at least Rs 100 crores. Capital receipts too may be higher than the estimates by even Rs 250 crores as the profits realised on exports of sugar alone will be a minimum of Rs 125 crores while rupee resources against special credits for importing foodgrains may fetch another Rs 25 crores. The Finance minister will thus have at his disposal an extra amount of Rs 350 crores in both the revenue and capital budgets and any over-run on non-Plan account should be capable of being absorbed especially as net borrowing through open market loans will be according fully with budget estimates.

There is however no indication that the ways and means position of the central government is comfortable as its deposits in the Reserve Bank have been barely above the minimum of Rs 50 crores and it was only during the week ended December 20 that these deposits recorded a rise to Rs 85.62 crores from Rs 54.88 crores, with the collection of large tax dues. There would have been of course a much bigger rise under this head but for the cancellation of ad hoc securities for a sizeable amount in order to neutralise to a certain extent earlier doses of deficit financing. This procedure is obviously being adopted in pursuance of the declared objective of containing deficit financing within tolerable limits. An analysis of the data available from the weekly returns of the Reserve Bank shows that the increase in holdings of rupee securities, treasury bills and invest-



ments in the Issue and Banking departments between March 28 and December 20, 1974, has been only Rs 347 crores against as much as Rs 639 crores in the corresponding period in 1973. This is certainly an indication that the creation of currency is taking place on a much smaller scale than in the previous two years particularly as there were earlier reports that there had been a throw-forward of part of the overall deficit of 1973-74 with delayed payment of outstanding bills and an increase in the pressure on the banking system by requiring public sector units to return their loans to the government to the extent possible and secure the required credit from banks.

The quantum of deficit financing in the first eight months however would have been on a larger scale if the government had not denied payments against additional dearness allowances to its employees. The arrears of three instalments alone will be around Rs 125 crores while there may be additional liability in respect of two other instalments for about Rs 40 crores. The total commitment may therefore be around Rs 265 crores against earlier assumption of Rs 212 crores and the budget estimate of Rs 120 crores, though the full effect of five or six additional payments will be felt fully in 1975-76. On the basis of an extra commitment of Rs 63 crores on account of dearness allowances and the increase in non-Plan expenditure in other directions the ways and means position should not be so difficult as it has been so far nor give rise to the frequent reports that deficit financing may be easily Rs 700 crores. It is not also known how the profits from sugar export have been utilised up to now. There is of course a fairly large amount still to accrue in the coming months as the higher priced exports will be effected only in the first quarter of 1975.

There is no justification therefore for saying that there will have to be a drastic pruning of Plan expenditure on central account and a different policy will have to be adopted for payment of dearness allowances when the required resources are in sight. The centre will of course have some difficulty in resisting the claims of the state governments for

special assistance for carrying out flood and drought relief operations. Even if it is stated that there will be no large grants and only advance payments will be effected against Plan allocations for subsequent years, the union Finance ministry will still have to find the required resources. As election prospects are even now being assessed and there is no desire to adopt an extremely harsh attitude the centre may eventually have to find about Rs 250 crores additionally for drought and flood relief and for implementing a crash programme for boosting agricultural production. This compulsion is probably worrying the government especially as the states may not have the required resources for Plan purposes if they have also to disburse larger amounts by way of additional dearness allowances.

There is however no denying the fact that the centre cannot expect to do better than it has done so far in respect of mobilisation of resources. The additional dearness allowances will have to be paid to the government employees. It can perhaps be decided that instead of immobilising completely the frozen portion of additional dearness allowances the centre may be allowed to divert the frozen portion for Plan purposes. This will in effect mean an increase in the borrowing of the government by over Rs 135 crores. Along with the other receipts it should not be difficult to maintain Plan outlay at the desired levels and yet avoid large-scale deficit financing. There can of course be changes in allocations on Plan account for releasing larger funds for core projects. On no account however should there be any serious shortfall in Plan expenditure on central account as this will affect seriously the calculations of many industries.

The government can hope even to raise additionally Rs 100 crores through

tap sales out of reissue of earlier loans if there is no aggressive demand for funds from industry and trade in the next few months and banks are not feeling uncomfortable. It can also be decided that the remaining impounded cash balance of Rs 120 crores should be released with a lowering of the cash reserve ratio three per cent from four per cent. The Reserve Bank has deliberately or otherwise adopted this policy for securing resources for the government. The liquidity ratio was raised to 33 per cent from 32 per cent when the cash reserve ratio was reduced by two per cent from seven per cent. With a further reduction in the ratio to four per cent in December the last phase of the borrowing programme has been successfully completed. In the first two phases, an aggregate amount of Rs 416.07 crores was raised. In the third phase there were two reissues for Rs 75 crores.

The lists for 5½ per cent 1975 loan and 6 per cent 1988 loan were opened on December 28, 1974, and closed on the same day on being fully subscribed. As the notified amount was Rs 75 crore the target of Rs 498.36 crores for borrowing has been fulfilled. It would not be surprising if in the name of containing deficit financing there was an attempt to raise additionally Rs 100 crores through fresh re-issues before March as stated earlier and adopt a flexible credit policy. Since major decisions are involved and complicated accounting procedures have to be completed, the revised estimates for 1974-75 on both revenue and capital accounts have more than usual significance. It can only be said now that the government could not have been more successful in mobilising resources than it has been in the current year and if there is nevertheless a large uncovered gap it has only itself to blame for not managing its resources budget properly.

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# Indo-Bangla trade prospects

PROF. D.P. Chattopadhyaya, our Commerce minister, and Mr Mustaq Ahmed, his counterpart in Dacca, have expressed the hope that the new Indo-Bangladesh trade agreement would give a big boost to the flow of goods between the two countries. Similar sentiments were expressed by the Commerce ministers when the first Indo-Bangladesh trade agreement was signed in March 1972. But, despite many favourable factors, Indo-Bangladesh trade failed to gather momentum and the rupee payment arrangement had to be abandoned. The switch-over to payment in freely convertible currencies with effect from January 1 is expected to contribute substantially to the expansion and diversification of trade but this will be possible only if New Delhi and Dacca learn the appropriate lessons from past experience.

The protocol signed in New Delhi on December 17 refers to the determination of the two countries to increase and improve their two-way trade. There is no doubt that if both countries make sincere efforts in this direction, the results will be mutually beneficial. India is in a position to supply a vast variety of traditional and non-traditional products which Bangladesh has been importing from distant countries. Especially the engineering industries of India can offer consumer goods and also industrial machinery, spare parts and many sophisticated equipment. At the same time, Bangladesh will find in India a large and profitable market for many of the goods that she can export.

The trade agreement of September 1973 had in fact identified many items for export from India and for import from Bangladesh. It had envisaged that India would export coal valued at Rs 60 million, unmanufactured tobacco for Rs 52 million, raw cotton for Rs 75 million, cotton yarn for Rs 20 million and cotton textiles for Rs 10 million. There was also provision for the export of other items such as bicycles, pharmaceuticals, chemicals, spices and sports goods. The main products to be imported from Bangladesh under this agreement were raw jute for Rs 200 million, fresh fish for Rs 35 million, newsprint for

Rs 45 million, besides other items. The Indo-Bangladesh agreement, signed in New Delhi on May 17, 1974 by Mrs Indira Gandhi and Sheikh Mujibur Rehman, also provided for the expansion of trade in some directions. India had agreed to provide three credits totalling Rs 410 million to Bangladesh to be used to finance the cost of imports from India of railway wagons, coaches, and other equipment, power equipment, agricultural and other industrial machinery.

But the trade did not expand, as envisaged in the previous agreements, mainly because Bangladesh did not have sufficient surpluses for export of certain items while, in the case of others, she found it more profitable to sell them against free foreign exchange. Dacca, on the other hand, complained that India's STC and the MMTC had not been able to deliver the goods at the time and in the manner they were expected to do under the agreements and that, in some cases, the quality was not according to specifications. But it is expected that, under the system of payment in free foreign exchange, both countries will have the inducement and incentives to sell to each other.

It is not clear from the protocol what exactly will be the role of the private sector in promoting the trade between the two countries. In the protocol that was signed recently between India and Pakistan it was specifically stated that trade would be conducted on a government to government basis in the initial stages. It is hoped, however, that, in developing trade with Bangladesh, New Delhi will not only allow but even encourage the private sector to play its part. The state trading agencies will, of course, continue to have an important role but, surely, it will be an advantage to the country to avail itself of the experience of the business community in building up this trade. The import requirements of Bangladesh are substantial and will continue to increase steadily in the coming years. It will therefore be necessary for Indian exporters to know what specifically are the various goods that are being imported by Bangladesh, the countries which are supplying them, and the prices at which they are obtained. India's Commerce ministry should instruct the export promotion councils and the commodity boards to take a special inter-

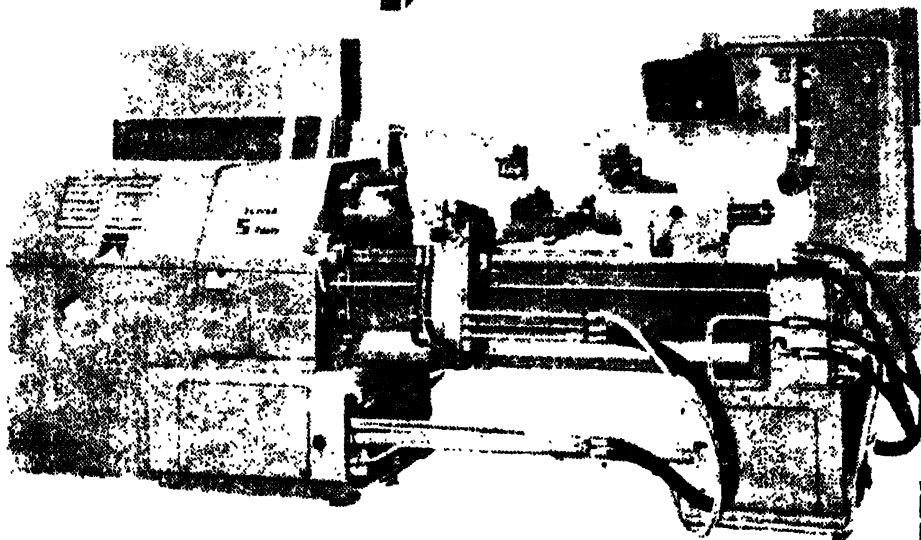
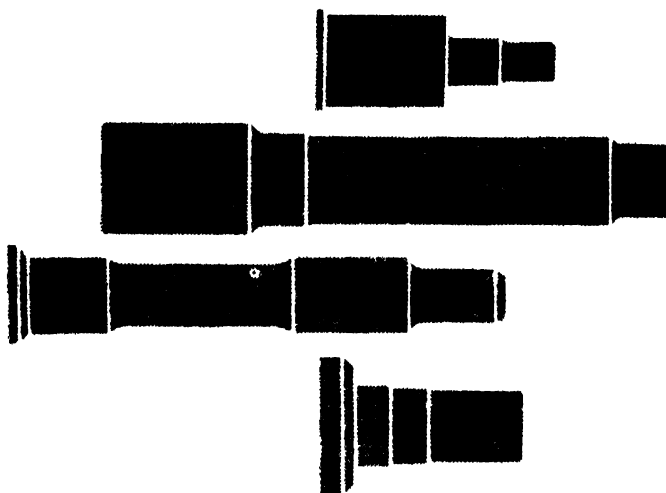
est in developing trade with Bangladesh by exchanging delegations and study teams, by arranging exhibitions and fairs, and by opening showrooms in Dacca and other commercial centres.

A major impediment to the promotion of Indo-Bangladesh trade has been the absence of transport facilities by sea, river and road. The services provided by the Shipping Corporation of India and the Bangladesh Shipping Corporation were said to be irregular and inadequate. New Delhi and Dacca should immediately look into this problem and see to it that transport facilities are readily and promptly available on both sides at reasonable costs.

The protocol gives no indication as to whether the two countries have any idea to evolve a joint approach in regard to jute. When Bangladesh came into existence it was widely expected that both Delhi and Dacca would actively cooperate with each other in regard to various aspects of the development of the jute industry and thereby counter effectively the threat from synthetics. But so far neither the governments nor the industries in both countries seem to have given serious thought to this question.

It is indeed surprising that the new trade protocol has evoked practically no interest in West Bengal although this state is ideally situated to be an important supplier of a variety of goods to Bangladesh. The West Bengal government has often pointed out that the share of this state in India's foreign trade has declined in recent years due to various reasons. But now that the power situation in West Bengal has improved and industries are able to step up their production, it should be possible for this state to find a market for her various goods in Bangladesh especially those of the engineering, chemical, pharmaceuticals and other industries. About two years ago, the state government had set up a cell in the secretariat for promoting the trade with Bangladesh. But this cell has remained inactive. In view of the new export opportunities that are now available in Bangladesh, the government of West Bengal should take the necessary steps to enable its industries to sell their products in this market at their doorstep.

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# Farm size, productivity and some related aspects

Rajvir Singh &  
R. K. Patel

FARM management studies conducted by the ministry of Agriculture provided a wealth of data to examine the efficiency of Indian agriculture. A number of conclusions were drawn from these studies on the different workers which had their bearing on economic policies (see Sen 1; Mazumdar 2, 6; Hanumantha Rao 3; Khushro 5; Rudra 9, 11; Saini 12, 14; Usha Rani 15; and Bhattacharya 16). One of the important findings of these studies was that there existed significant difference in factor intensities and input-output ratios between different size classes of farms. More specifically it was observed that (i) the output per acre is inversely related to the size of farm as measured by area; (ii) the input per acre (total cost including payment for all the factors of production) is inversely related to size of farm; (iii) the profit per acre is directly related to size of farm; and (iv) small farms are operating at constant returns to scale. The last three conclusions were accepted by most of the economists. However, the first conclusion, i.e. the output per acre is inversely related to size of farm, started a controversy and workers in this field offered different explanations for this relationship (see Sen 1, 4; Mazumdar 2, 4; Hanumantha Rao 3; Rudra 11; Sanyal 13; Usha Rani 15; and Bhattacharya 16).

## Lost opportunities

During the last decade yield increasing technology, such as high yielding short duration varieties of crops, increased use of chemical fertilizers and pesticides and advanced irrigation facilities, have opened up opportunities for rapid growth in agricultural production and realisation of higher income per unit of area. Consequently, it was felt that the rela-

tionship of output and input with the size of farm might have changed (see Saini 14; and Bhattacharya 16). However, the empirical work to examine the relationship of output and input with farm size in the context of recent technology has been limited. Therefore, the present study is an attempt at examining these relationships in an area which has been well exposed to latest technological developments.

Meerut district of Uttar Pradesh which has the top rank according to agricultural development in the state was selected for the present study. Out of 20 blocks of the district, the blocks where the holdings were consolidated prior to 1968 were arranged in descending order of the percentage area under Mexican varieties of wheat<sup>1</sup>. First two blocks from the top were then selected and the same criterion was used to select two villages from each block.

## Personal verification

The data on the operational holding of all the farmers of these four villages were collected from local revenue officials and were verified by personal enquiry. All the farms were, then, arranged in an ascending order with regard to size of operational holdings. Those top farms, which occupied one-third of the total area of all farms, were classified as small farms; the next slab of the farms occupying another one-third of the total area were categorised as medium farms; and the remaining farms were termed as large farms. Thus, small farms comprised operational holdings of less than three hectares, medium farms three to less than 5.5 hectares and large farms 5.5 hectares and above. Sixty farms from each block were selected at random according to probability proportional to the number of farms in each size class and the total sample, thus, included 120 holdings in all.

The selected farmers were interviewed personally with the help of specially structured schedule and the data on the physical input-output of the crops, prices of

inputs and outputs, wages of labour, fertility of land (consolidation assessed value fixed for each plot by the revenue department of the state at the time of consolidation of holdings) and on the inventory of all the assets were collected pertaining to agricultural year 1969-70.

## Dependent variable

To examine the relationship between output and farm size an equation of the form,  $Y = aX^b$  may be fitted where Y may be taken as output per hectare or total output of the farm. However, it has been widely observed that the use of per hectare data introduces an element of non-linearity in the data. Therefore, per farm data were used as dependent variable and the size of farm in standard hectare as an independent variable. In this case regression coefficient of land would be positive but less than unity if output per standard hectare declined with the size of farm; positive and equal to unity if output per standard hectare remained same with the size of farm; and positive and greater than unity if the output per standard hectare increased with the size of farm (7). The fitted equation between output and farm size was as follows:

$$\log Y = -3.6125 - 1.0811 \log X_1 \quad (0.0662)$$

$$N = 120 \quad R^2 = 0.8153$$

where

Y = Gross returns on the farm in rupees

$X_1$  = Size of farm in standard hectares†

$R^2$  = Coefficient of multiple determination.

N = Number of observations.

The regression coefficient of farm size

†The area was standardised using the assessed value of land as an index of fertility fixed for each plot by the Revenue Department of Uttar Pradesh. Therefore,

$$X = \frac{\sum A_1 V_1}{16}$$

where,

X = Size of farm in standard hectares

$A_1$  = Area of one plot in hectares

$V_1$  = Assessed value of the plot in annas.

†Rajvir Singh is Assistant Professor of Agricultural Economics at G.B. Pant University of Agriculture and Technology, Pantnagar, and Mr R. K. Patel is the Head of Division of Dairy Economics and Statistics at National Dairy Research Institute, Karnal.

The percentage area under Mexican varieties of wheat was taken as an index of adoption of technology.

was positive and significant at one per cent level indicating that the total output per farm increases with an increase in farm size. Though the regression coefficient with respect to farm size was greater than unity, but the difference was found significant only at 30 per cent level which may not be considered as an appropriate level to conclude a positive relationship between output per standard hectare and farm size. However, it may be concluded that in the context of recent technology there is no indication of inverse relationship between output per hectare and farm size and, therefore, the hypothesis of inverse relationship is rejected on the sample farms.

The inverse relationship of output per hectare and farm size in the farm management studies was attributed to the fact that the small farms were using more input per unit of area than the large farms. Therefore, an attempt is made here to examine the relationship of total cost with farm size by fitting the following equation:

$$\log C = 3.6089 + 0.9311^{***} \log X$$

(0.0392)

$$N=120 \quad R^2=0.8817$$

where

C=Total cost on the farm in rupees

X=Size of farm in standard hectares.

The regression coefficient of farm size is positive and significantly less than unity at 10 per cent level indicating that with an increase in farm size there is significant decrease in the total cost per standard hectare. Therefore, the explanation of output being constant or increasing with farm size does not lie in the total cost which showed a decreasing trend. It may only be attributed to the use of growth promoting inputs which showed increasing trend with farm size. From the table below it may also be observed that the use of conventional inputs such as human labour and bullock labour per standard hectare is decreasing with an increase in farm size while the use of growth promoting inputs and machinery and implements is increasing with the farm size.

To examine the relationship of profit and farm size the following equation was fitted taking per farm profit as dependent

## POINTS OF VIEW

variable and farm size as independent variable:

$$\log P = 1.2237 + 2.0521^{***} \log X$$

(0.6750)

$$N=120 \quad R^2=0.1832$$

where,

P=Profit on farm in rupees

X=Size of farm in standard hectare

The regression coefficient in this case is positive and significantly higher than unity at 20 per cent level of significance indicating that at this level the profit per standard hectare is increasing with farm size. This finding supports the earlier finding that the profit per unit of area and farm size are positively related.

To examine the nature of return scale on the sample farms, the following Cobb-Douglas type of equation was fitted to the data.

$$Y = a X_1^{b_1} X_2^{b_2} X_3^{b_3} X_4^{b_4} X_5^{b_5}$$

$$Y = a X_1 X_2 X_3 X_4 X_5$$

where

Y=Gross returns on the farm in rupees.

X<sub>1</sub>=Area of the farm in standard hectare.

X<sub>2</sub>=Plough unit (comprising one pair of bullock and one man associated with that) in days.

X<sub>3</sub>=Irrigation in hectare-centimeter

X<sub>4</sub>=Manures and fertilizers in rupees

X<sub>5</sub>=Human labour in days.

X<sub>6</sub>=Machinery and implements in rupees.

Out of two variables which had high inter-correlation only one, which showed higher correlation with returns, was retained in the equation. In the final equation only those variables were retained whose coefficients were significant at least at 20 per cent level and the same were as follows:

$$Y = 59.2463 X_1^{0.3770^{***}} X_2^{0.3759^{**}}$$

(0.1005) (0.1040)

$$X_3^{0.4830^{***}}$$

(0.0859)

$$N=120 \quad R^2=0.8704 \quad \sum b_i = 1.2359$$

S.E. ( $\sum b_i$ ) = 0.0

In the Cobb-Douglas type of equation the regression coefficients indicate direct

**Levels of Labour and Capital Inputs and Estimates of Returns, Costs and Profits Per Standard Hectare on Farms in Meerut District (1969-70)**

| S. No.           | Items                         | Small Farms | Medium Farms | Large Farms | All Farms |
|------------------|-------------------------------|-------------|--------------|-------------|-----------|
| <b>A. Inputs</b> |                               |             |              |             |           |
| 1.               | Human labour (days)           |             |              |             |           |
|                  | (i) Family labour             | 227.05      | 112.49       | 45.65       | 136.35    |
|                  | (ii) Hired labour             | 61.33       | 146.69       | 168.37      | 120.48    |
|                  | (iii) Total                   | 288.39      | 259.18       | 214.02      | 256.82    |
| 2.               | Bullock labour (days)         | 95.46       | 81.29        | 71.43       | 83.77     |
| 3.               | Machinery and implements (Rs) | 143.33      | 154.00       | 290.30      | 190.80    |
| 4.               | Growth promoting inputs (Rs)  | 849.00      | 1015.15      | 1018.81     | 908.79    |
|                  | B. Gross returns (Rs)         | 4252.45     | 5081.65      | 5174.25     | 4791.58   |
|                  | C. Total cost (Rs)            | 3709.78     | 3612.23      | 3445.70     | 3599.67   |
|                  | D. Profit (Rs)                | 542.67      | 1469.42      | 1728.53     | 1191.91   |

Human labour: The actual number of labour used for crop production.

Bullock labour: The actual number of bullock pair used for crop production.

Machinery and implements: The annual depreciation on machinery and implements.

Growth Promoting Inputs: Expenditure on fertilizers, manures, pesticides, seed and irrigation.

Gross Returns (Y): Value of main product as well as by-product of the crops grown on the farm evaluated at harvest prices.

Total Cost (C): All cash and kind expenses on the farm comprising wages of hired labour, value of bullock labour — hired and owned, seed and manures, (farm produced and purchased) fertilisers, irrigation charges, interest paid in cash, depreciation on implements, rent paid and rental value of owned land, interest on owned fixed capital excluding land and imputed value of family labour.

Profits (P): Gross returns (Y) minus Total cost (C).

## POINTS OF VIEW

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elasticity of production of each input and the sum of these elasticities indicates the nature of returns to scale. The return to scale is decreasing, constant or increasing as the sum of elasticities is less than, equal to or greater than unity. The sum of elasticities is 1.2359 which is significantly higher than unity at one per cent level indicating increasing returns to scale in the area under study. Therefore, the hypothesis that Indian agriculture is operating at constant returns to scale is rejected in the context of the new agricultural technology.

### Testing the validity

The present study has been directed to test the validity of some of the conclusions drawn from the farm management studies in the context of recent technological development. More specifically the following were tested: (i) the output per acre is inversely related to size of farm; (ii) the input per acre (total cost including payment for all the factors of production) is inversely related to size of farm; (iii) the profit per acre is directly related to size of farm; and (iv) the farms are operating at constant returns to scale. The data were collected from 120 farms of Meerut district pertaining to agricultural year 1969-70. Special attention was given at every stage of selection, viz. district, blocks and villages, so that the sample farms could have been well exposed to latest yield increasing technology.

The conclusions may thus be summed up as follows:

1. The gross return per standard hectare does not have any indication of inverse relationship with the farm size.

2. The total cost per standard hectare showed an inverse relationship with farm size.

3. The profit per standard hectare is increasing with the farm size.

4. The sample farms are operating at increasing returns to scale.

Therefore, the hypotheses of inverse relationship between farm size and productivity and constant returns to scale were rejected in the area under study while the other two were accepted. Based on the findings of this study it may well be suggested that similar types of studies should be conducted in different agro-climatic regions of the country before reducing farm size by introducing down-

ward land ceiling which may result in drastic cut in total agricultural production.

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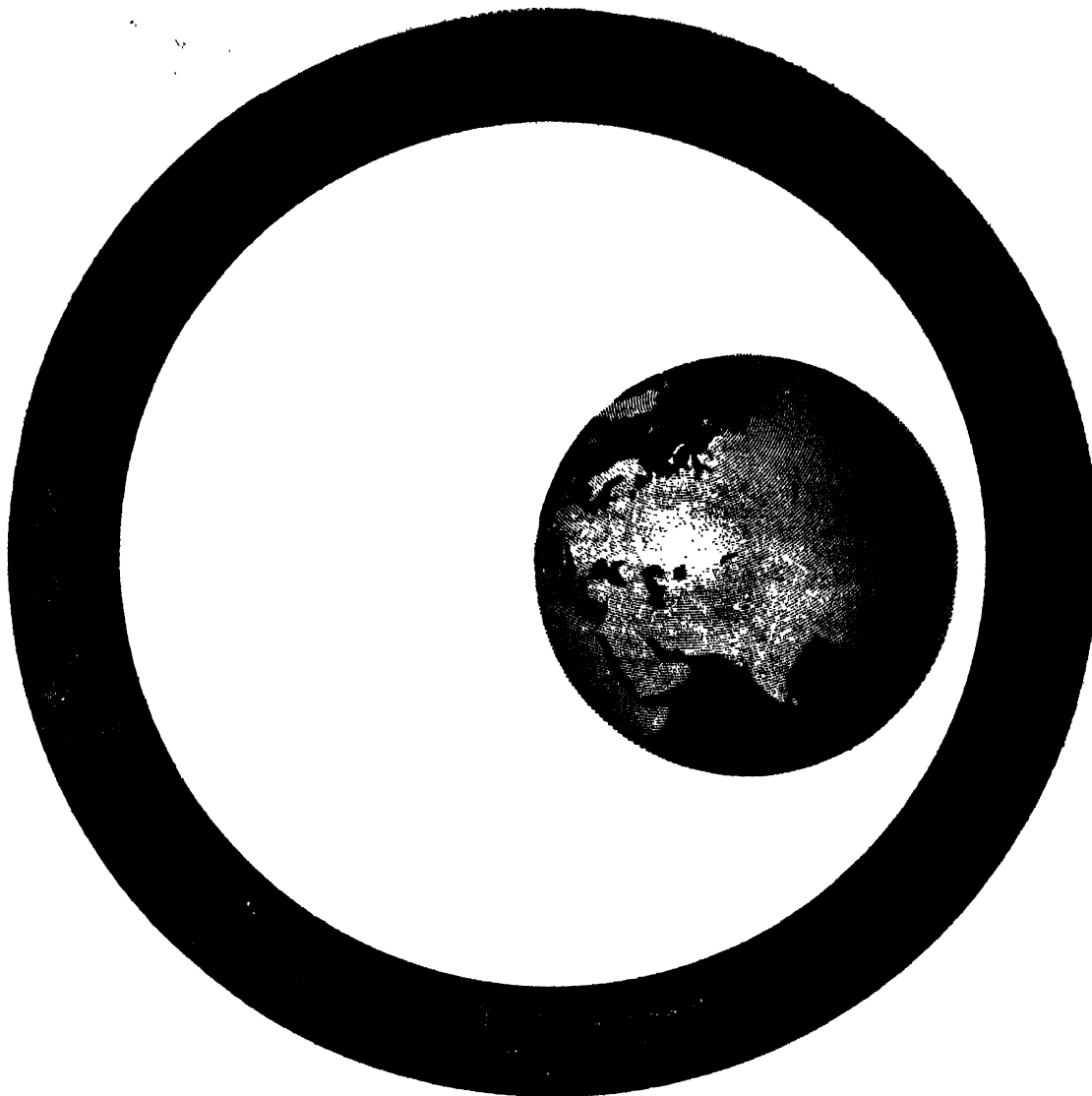
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## Eastern Economist 30 Years Ago

JAN. 12, 1945

India produced from 20 to 23 million tonnes of coal each year in the pre-war days. This supply being inadequate to meet the country's requirements substantial imports had to be obtained from South Africa and elsewhere amounting in 1937-38 to 79,000 tons. In contrast to this is the present acute shortage in coal supply which is not likely, it is strongly feared, to reach even the comparatively low target of 23 million tons fixed for the year 1944-45. Lack of essential machinery and equipment continues to cause worries and the government have so far been able only to give the information that they have deputed two officials in the USA and the UK to arrange for the import of machinery. Transport has also been in part at least a source of trouble. It has been calculated, for instance, that total wagons required for

the transport of coal from the Bengal and Bihar coal-fields are about 2,000 per month. Of this till some time back only a half seem to have been made available. But the worst difficulties have arisen out of a shortage of labour supply and instead of taking steps to remove the causes responsible for labour's repulsion to work in the coal-fields the government contented itself with the retrograde step of legalising women miners' entry into the mines and with half-measures like the lifting of the military and the PWD out of the miner labour market. The cost of living in the mining areas is reported to have increased by about 300 per cent, and government have sanctioned a dearness allowance of about 50 per cent! The miners' standard wages, it should be noted here, are between Rs 5 and 9.



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# Around south-east Asia

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## I The Philippines

President : Fernand E. Marcos  
Exchange Rate : 15.663 Pesos=£1  
(£1=US \$2.317)

THE OUTBREAK of hostilities between government forces and Muslim secessionists in 1974 to some extent detracted from the country's recent impressive economic performance. However, attempts have been made to reduce tensions in the southern Philippines. Since the declaration of martial law in September, 1972, the Philippines has established diplomatic relations with many east European nations and is also moving towards establishing ties with both China and the Soviet Union.

Considering the disruption caused by floods in July-August 1972, the economic

In addition, foreign investment has been increasing and a large number of long-term development loans have been arranged. Tourism has also been growing in importance and the net result was that a relatively substantial balance of payments surplus of \$671 million was achieved in 1973; by the end of July, 1974, international reserves totalled \$1,517 million, an increase of \$667 million over the previous twelve months.

However, this rapid economic expansion has not been achieved without cost. The emphasis on exports has led to a number of artificial shortages in domestic markets, such as the construction industry, and, with consumer prices rising by over 17 per cent in the first six months of 1974, many groups of workers have seen their real wages declining. While the internal shift of resources towards business firms might be welcome insofar as it permits the expansion in investment necessary to main-

banks. Moreover, earlier forecasts of a balance of payments deficit in 1974 have recently been revised and a payments surplus was projected. If a surplus is not achieved, the government will be able to utilise the standby credits of some \$800 million which were arranged by the Central Bank earlier in 1974. In the immediate future much depends on the trend in world commodity prices and on the government's success in tackling the problems of domestic inflation and political disturbances.

### Philippines : Value of Trade

(Total trade in millions of Pesos)

|      | Exports | Imports | Balance |
|------|---------|---------|---------|
| 1967 | 3,199   | 4,143   | -944    |
| 1972 | 7,351   | 8,165   | -814    |
| 1973 | 12,147  | 10,710  | 1,437   |

## II

### Malaysia

Prime Minister: Tun Abdul Razak

Exchange Rate: M\$5.607=£1  
(£1=US \$2.317)

In the general elections held in August, 1974, the ruling party returned to power with an overwhelming majority. Malaysia has recently established diplomatic relations with China, and other countries of the Association of South East Asian Nations (ASEAN) are expected to follow suit. Economic expansion has been led by the trade sector, exports accounting for 48 per cent of GNP in 1973. Malaysia is the world's leading exporter of rubber, tropical hardwood, tin, palm oil and pepper. As a consequence of the commodity boom, the Malaysian dollar which joined the 'floaters' in June, 1973, appreciated by nearly 10 per cent on a trade-weighted basis against the currencies of the major trading partners by the end of 1973. Unemployment, estimated at 7.3 per cent at the end of 1973, is moderate by Asian standards. Inflation presented a problem: consumer prices were rising at an annual rate of 23 per cent by March, 1974. However, remedial measures taken by the government effectively halted and brought the rate down to only 13 per cent by June.

Increasing importance is being attached to economic development reflected by the fact that while federal government current

# WINDOW ON THE WORLD

growth rate of 10 per cent recorded in 1972 was impressive. The value of agricultural output rose by 11 per cent, manufacturing by 12 per cent and mining by 8.7 per cent. The government has introduced many measures in the past two years designed to promote economic growth. These include the establishment of the National Economic Development Authority, substantial expenditure on transport improvements, and the overhaul of the tariff, customs and tax systems. However, the main factor behind the recent improved economic performance has been a favourable movement in the terms of trade. As a result of the increase in world commodity prices, the value of exports rose by 65 per cent in 1973 to P 12,147 million. The major commodity exports were coconut products (P2,385 million), wood (P2,217 million), sugar (P2,051 million), and copper (P1,896 million).

tain a high rate of economic growth, nevertheless, to a large extent the move conflicts with the attainment of an equitable distribution of wealth, a major target of President Marcos' New Society.

The government is taking a relatively optimistic view of the country's economic prospects and has set a target growth rate of seven per cent for the current year. In a four-pronged approach designed to counteract any recessionary tendencies President Marcos announced early in 1974 that short-term investment projects would be given priority, as would the continued expansion of exports and the encouragement of foreign investment and overseas loans. The government is also actively encouraging the development of Manila as the next financial centre of south-east Asia and has opened the domestic banking system to direct investment by foreign



expenditure is to rise by six per cent over 1973, development expenditure is to increase by 11 per cent. The 1974 budget provides for current expenditure of M\$3,470 million and development expenditure of M\$1,402 million. Current revenue is to total M\$3,537 million and the overall deficit is mostly to be financed by domestic borrowing.

The industrial sector is gradually assuming an important role. Manufacturing output, which averaged a 12 per cent annual growth rate over the last five years, increased by 19.2 per cent in 1973 and is forecast to generate 23.3 per cent of GDP by 1980, compared with 13.6 per cent in 1970. In 1973, the government approved 473 new projects which are expected to create 81,000 new jobs at a cost of M\$545 million—this is around 50 per cent higher than in 1972. Manufactured exports, excluding tin metal, were estimated to have increased by 46 per cent in 1973 reaching M\$730 million.

Export earnings registered 50 per cent increase in 1973, which also saw a welcome diversification of the export sector. Rubber was still the major export earner, but accounted for only 33 per cent of exports compared with 55 per cent in 1960: timber for the first time took second place with 22 per cent, tin accounted for 13 per cent and palm oil exports contributed seven per cent. Imports increased by 29 per cent mainly in response to the high level of aggregate demand following the export boom. Manufactured goods, machinery and transport equipment accounted for just over 56 per cent. Singapore, the EEC, Japan and the United States took almost three quarters of total exports and supplied three-fifths of imports. Total reserves stood at US \$1,508 million at the end of June, 1974, an increase of US \$222 million over June, 1973.

### reasonably optimistic

While the overall picture of the economy is reasonably optimistic, the major flaw on the export front is that the spectacular gains achieved were largely due to the favourable terms of trade. However, the rise in commodity prices appears to have stabilised and coupled with the impending recessions in, and expected deficits of, many of Malaysia's major trading partners, the rate of export-led growth may fall.

Malaysia is rapidly nearing take-off stage in economic expansion. GNP, at an estimated M\$1,360, is one of the highest per head in Asia. The oil crisis has enhanced the cost-competitiveness of natural rubber and the long-term prospects

for the timber industry remain good, although prices are currently depressed. Resource-orientated industries should not only diversify the manufacturing sector but also help to alleviate unemployment. On the energy front new oil finds and high hydroelectric potential augur well for the future. The slowdown in world trade remains a major problem confronting the country. Substantial development can nevertheless be anticipated in this sound economy.

### Malaysia : Value of Trade

(Total trade in M\$ million)

|      | Exports | Imports | Balance |
|------|---------|---------|---------|
| 1967 | 3,724   | 3,152   | 572     |
| 1972 | 4,838   | 4,347   | 491     |
| 1973 | 3,372   | 5,555   | 1,817   |

### III

### Singapore

Prime Minister: Lee Kuan Yew

Exchange rate: S\$5.717=£1  
(£1=US \$2.317)

Lee Kuan Yew's government has gradually created a climate conducive to the development of Singapore as a major financial and manufacturing centre in south-east Asia. Of the countries of the Association of South East Asian Nations (ASEAN), Malaysia has already established diplomatic relations with China, and Singapore is likely to follow other ASEAN countries. This could have far reaching effects in the light of China's increasing trade with the world and the strategic position of the port of Singapore. Gross Domestic Product grew in real terms by 11 per cent in 1973. However, the higher cost of oil and commodity imports raised prices by 23 per cent as compared with one per cent per annum in the previous decade.

Economic development is receiving priority in the budget for the fiscal year 1974-75 and is allocated S\$1,562 million out of a total expenditure of S\$3,380 million. Total expenditure is 15 per cent more than for the fiscal year 1973-74, whereas development expenditure is to rise by 33 per cent. Housing and industrial development are to account for nearly two-thirds of the total estimated development expenditure.

In 1973, at constant prices, exports and imports grew by 14.1 per cent and 6.2 re-

spectively, and entrepot trade rose by six per cent. Machinery, transport equipment, mineral fuels and lubricants, and crude materials form the bulk of exports while the first three together with manufactured goods, food and live animals are the principal imports. As recently as 1970, re-exports accounted for 61 per cent of total exports, but by 1973 this proportion had diminished to an estimated 46 per cent. Domestic exports rose from S\$217 million in 1960 to S\$4,791 million in 1973. Malaysia, the United States, Japan and the United Kingdom are the major trading partners. Total reserves rose from US \$1,020 million in March, 1973, to US \$1,325 million by March, 1974.

### rising labour costs

Manufactured exports accounted for 68 per cent of total domestic exports in 1973. However, labour costs have been increasing, and were forecast to rise by over 20 per cent in 1974. Given rising costs and the sluggish trading conditions in the developed countries, which took half of domestic exports in 1973, export earnings are likely to fall. The emphasis is now on capital intensive and advance technology products, reflecting endeavours to broaden the base of the economy and to ease a tight labour market. High technology industries accounted for some 87 per cent of the total investment of S\$819 million in the manufacturing sector in 1973: foreign investment in manufacturing rose by 136 per cent over 1972. The high volume of foreign investment has been mainly responsible for the growth of the shipbuilding and ship-repairing industries.

Singapore is an urban economy. Agriculture plays only a limited role. Half the cultivated land is devoted to rubber and coconuts. Virtual self-sufficiency has however been attained in poultry, eggs and pork, and the fishing industry is receiving increasing attention.

Government encouragement has led to the development of the Asian-Dollar market and funds currently total some US \$7,000 million. It is hoped that this market will now attract part of the astronomical increase in the oil revenues of middle-east countries. Singapore is a net borrower of funds, a large proportion of which is drawn from the Eurodollar market, mainly through London; the major borrowers are multi-nationals and private south-east Asian companies.

It is difficult to chart the course of Singapore's open economy as it is dependent on economic conditions in the outside world. In 1974, the real rate of growth may have fallen to some 5-7 per cent and the

gap in commodity trade may have widened further, though increased invisible earnings will have somewhat eased the burden. The increasing search for oil by south and south-east Asian countries offers wider opportunities to the oil drilling industries and allied services and to the growth of the Asian-Dollar market as the source of finance.

#### Singapore : Value of Trade

(Total trade in S\$ million)

|      | Exports | Imports | Balance |
|------|---------|---------|---------|
| 1967 | 3,491   | 4,157   | -666    |
| 1972 | 6,149   | 8,948   | -2,799  |
| 1973 | 8,907   | 11,738  | -2,831  |

#### IV

#### Indonesia

President: General Suharto

Exchange Rate: 962 Rupiahs=£1  
(£1=US \$2.317)

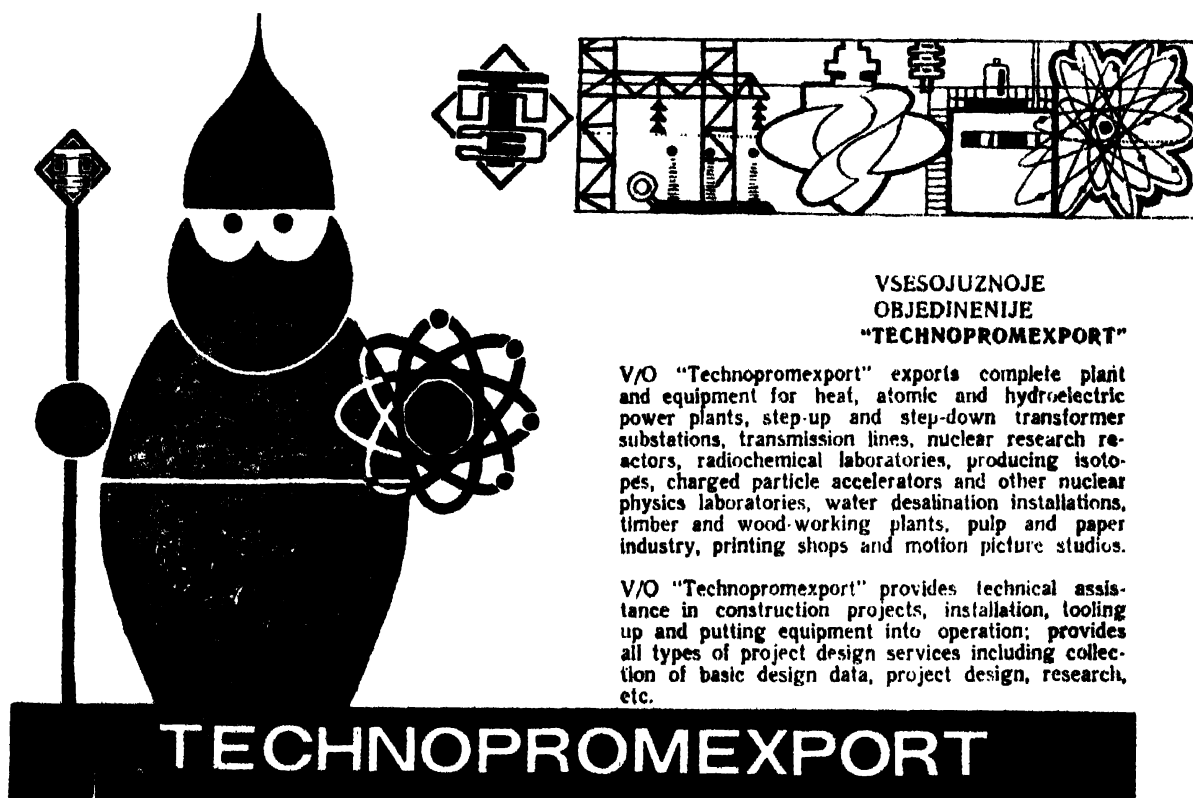
The economy continued on its upward path in 1974. For example, oil production

rose by 24 per cent to 488 million barrels and rubber production by 20 per cent to 333 million kilogrammes. Overseas investment has been important in the country's economic development: by the end of June, 1974, foreign investments totalling \$3,496 million had been approved by the Foreign Investment Board under the terms of the 1967 Foreign Investment Law. Such investments have been concentrated in west Java, particularly Jakarta.

The continued economic expansion was reflected in the value of exports which rose by 58 per cent in 1973. A large part of the increase was a result of the higher prices and volume of oil exports, although overseas sales of timber, rubber and tin also improved. As a consequence international reserves rose by \$233 million to \$807 million in the twelve months to the end of December, 1973. Moreover, the increase in reserves was even more pronounced in 1974, and by the end of July stood at \$1,827 million.

However, in spite of recent economic progress Indonesia still remains essentially a low-income developing country with

enormous problems. With a population of nearly 129 million, unemployment is wide-spread and rice production is insufficient for domestic needs. Inflation has been accelerating: in the twelve months to the end of June, 1974, consumer prices had risen by nearly 50 per cent. President Suharto has recognised the need for policy changes. When presenting the draft of the Five Year Development Plan (Repelita II) covering the period April, 1974, to April, 1979, he emphasised that future development would aim to increase 'social justice', to supply sufficient food, clothing and housing, improve the infrastructure and provide greater employment opportunities. The Plan itself provides for an estimated expenditure of Rp 4,858,800 million and aims at an annual growth rate of 7-8 per cent. Nevertheless, this did not prevent public dissatisfaction erupting in the form of rioting which broke out in Jakarta in January during the visit of the Japanese prime minister. However, the government has made further efforts to answer public criticism. Measures designed to increase local participation in new investments and to reduce corruption have been announced and an



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anti-inflationary package introduced which included sales tax reductions.

#### Indonesia : Value of Trade

(Total trade in US \$ million)

|      | Exports | Imports | Balance |
|------|---------|---------|---------|
| 1967 | 665     | 590     | 75      |
| 1971 | 1,234   | 985     | 249     |
| 1972 | 1,778   | 1,302   | 476     |

Although many problems remain, the

economic outlook in general appears favourable. The Inter-Governmental Group on Indonesia is to give \$850 million in aid in 1974-75. Moreover, despite the current slump in the timber industry, the long-term prospects for timber exports remain good. An expansion of industrial capacity and exports of indigenous mineral resources, particularly tin, bauxite, natural gas and oil, is also planned. Indeed the recent boom in oil prices will result in a substantial surplus of funds (receipts

from oil exports in 1974 were likely to exceed \$4,000 million) which may well prove difficult to absorb.

**Sources and acknowledgements:** The foregoing summaries a report issued by the Barclays Bank Group, Economic Intelligence Unit (54 Lombard St. London EC 3 P:3AH) but the bank is responsible neither for the emphasis of my summary nor for my interspersed comments based on a variety of sources.

# Silver lining on western horizon

E. B. Brook

Vienna

THERE ARE a few significant bright patches in an otherwise gloomy sky as the new year opens. The first is the decrease in mutual competitiveness by the European states and the USA in handling their oil problems and relations with the oil producers, the second the belated and absolutely last-minute passage by the US Congress of the Trade Bill which not only gives the USSR most-favoured-nation treatment in commerce but, much more importantly enables the second round of trade talks within the General Agreement on Tariff and Trade to make a realistic start after the preliminary discussions about having such talks were concluded in Tokyo nine month ago. After some 15 months of steadily rising prices in domestic and foreign trading, short time and unemployment, falling profits and bankruptcies the world may be in a more chastened mood, ready to make mutual concessions in order to increase the total volume of trading. There is much preparation to be done in the USA and within the Common Market area but the talks should now be able to begin in Geneva next April.

There is reason also for some world relief that the newly-elected one-third of the US Congress will now come in to constitute the 94th US Congress with probably fresher and more liberal ideas than those shown by the 93rd, overshadowed by the Watergate scandal and essentially

halting in his attitudes to both the socialist world led by the USSR and to industrially and commercially developing countries. President Ford has himself shown some useful initiative in foreign affairs and his new Vice-President, Mr Rockefeller, is a man of far wider sympathies and experience than any in that office for several decades. As world's still easily leading industrial and commercial state the USA is vitally important to the rest of the world in the nature and quality of its leadership and legislature. The changes in Washington promise a less ponderous and sluggish time ahead.

In Europe, also there is a fresher sense of the need to deal with facts and cease complaining about them and squabbling together. The British are beginning to realize that their continental partners are not really deeply concerned whether they remain within the Market or not. The West German press has been particularly plain spoken and the French are obviously indifferent whether Britain, Ireland or Denmark remain with them or not. The days have passed when the expansion of the six to nine was significant. Britain's deepening weakness is accepted as an abiding fact and the relatively prosperous Five—France and West Germany with the Benelux area—are more intent on west Asia and its money than on the ailing west and south of

Europe. They have also to work out the new basis of commercial relations with east Europe as from this new year.

The Market Commission's Secretary, the Corsican M. Ortoli, is shortly to visit Moscow to talk matters over with the Comecon secretariat now that Market members will be making their trade agreement with bargainers from east Europe not individually, as hitherto, but collectively. It remains to be seen whether west European collectivity bears much resemblance to the east European type. The parties are uncertain of each other; there is no agenda for the talks and the Comecon officials have not even revealed what they would like to talk about. Since the Soviet Union already has some very useful longterm cooperation and trade agreements, particularly with West Germans, French and Italians, it is fairly certain to wait and see what the Market Commission has to offer before showing its own hand very clearly.

The most serious problem for west Europe is to restore more confidence to its public by beginning to reduce domestic prices and to ensure rather more stability in jobs. It is becoming accepted that a far higher level of worklessness than has been known for years will have to be accepted generally, that a higher percentage of expenditure in employment relief

must be tolerated and that the days of general prosperity are already a long way behind, Italy leads the unemployment stakes with some 1,200,000 out of work and almost constant strikes. West Germany comes second with already just about a million out of work. France and Britain both are approaching 700,000. These are the main arcus: the lucky Dutch and Belgians both have fewer than 150,000 out of work and Scandinavia generally is busy. But the percentage rates are, on the whole, about twice last year and are likely to rise.

### fears of unemployment

People such as the British and Italians take unemployment in their stride, the French grumble but, to the west Germans a million out of work appears a catastrophe. Worklessness has certainly a tragic history in this century in Germany but there is much inclination to exaggerate economic and social troubles in the Federal Republic. There is no social distress, law and order are very firmly in the saddle and short-time working and closing of some factories are little more than necessary adjustments of a boom-time expansion to a more normal profit-and-loss existence. Many thousands of "guest workers" have gone home from West Germany, Switzerland and Austria in the last year but anyone who saw the 11 miles long queue of cars driven by "guest-workers" going home to Greece, Turkey and Yugoslavia for the year-end holidays would have no illusion of any hard luck on their part. In fact, hard luck stories from Europe whether from workers or from the hard-hit businessmen should be taken at anything but face value. High prices or not, Xmas domestic sales were a record and, if the streets were rather darker to save energy, they were all crowded as ever with people spending freely.

It is only a few months since the banks were complaining that the Arabs and other oil-owners were reinvesting their earnings only in short term deposits, difficult to handle and unsettling to the share markets. If they would only put out their money in long term deposits, all might be well. In the meantime, west Asia has been putting out its money on long term in west Europe to such an extent that

the Sheikdom of Kuwait has bought a 14 per cent share of Daimler-Benz's share capital, there are very sizeable Arab and Iranian purchases into West German chemical and engineering industries—Iran owns 25 per cent of Krupps steel works—and three large German banks have been helping throughout the year with sizeable Arab investments, especially from Kuwait and Qatar. The effect in West Germany has been to produce the usual shrill hysteria: a largely-circulated and very right-wing paper from Munich came out with banner headings "Are the Sheikhs buying up Germany?", the more respectable *Der Spiegel* asks very much the same thing more politely; the prestigious Sunday *Die Zeit* of Hamburg devoted most of last week's 30-page glossy issue in detail to Arab and Iranian purchases—on a sober and reasonable note—and Chancellor Schmidt has been obliged to tell his Parliament in Bonn that his government will not allow oil-rich countries to gain control over strategically essential German industrial firms.

By comparison, the French and the British have taken Arab purchases very much more in their stride but, in the USA, where Saudi Arabia now owns the mammoth Aramco oil concern, there is

strenuous opposition to Arab attempts to buy heavily into the coal industry. The Arabs and others may well complain that if they invest short-term, they are accused of rocking the financial boat and if they invest long-term, of trying to buy up Europe. Not unnaturally, they are trying to make sure of complete control over their own oil industry's continued success by building tankers and buying sizeable blocks of shares in shipbuilding concerns, with some concentration at present on West German wharves.

The ten-month period of quiet for the new oil prices and the prospect of a world oil conference opened by the Ford-Estaing talks on Martinique should contribute to soothe European and, especially, West German nervousness. The quiet beneficiary of it all, with current deliveries of 23.8 billion cubic metres of natural gas to east and west Europe annually and a swelling oil trade is the Soviet Union. For the first time west Europe finds itself looking east and south-east for its essential energy at terms they decide. With this prospect unchanged for 1975, gas prices up four-fold and oil dearer, they have excuse for some unhappiness.

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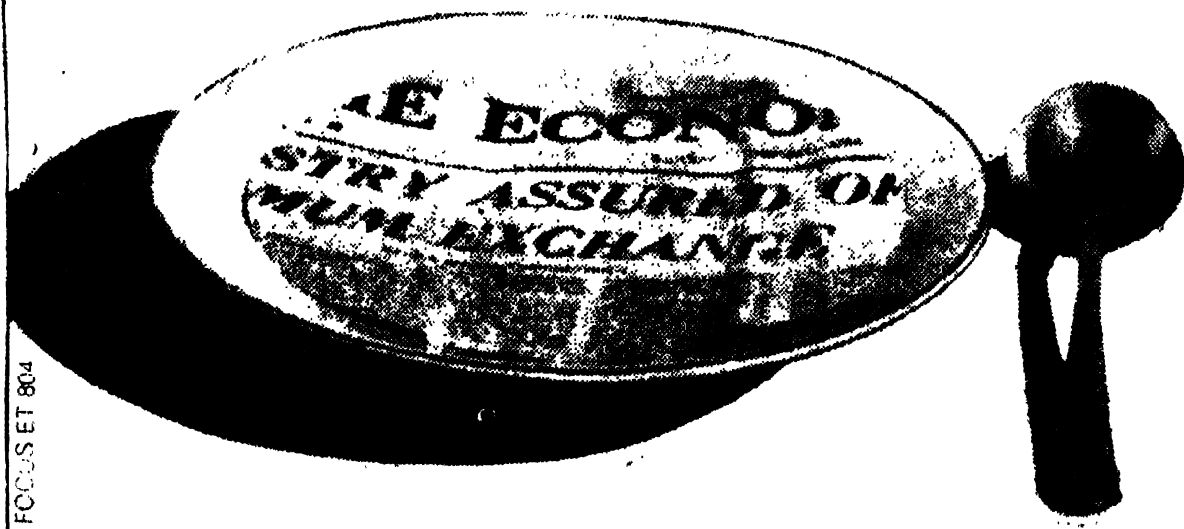
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FOCUS ET 804

# The problem of numbers

**Management and Population—A Systems View and Review of Family Planning Programme in India** : N. V. R. Ram; D. K. Publishing House, Delhi; Pp 130; Price Rs 25.

**Short-Term Investment Forecasting** : Samuel Paul and C. Rangarajan; Macmillan India; Pp. 207; Price Rs 50.

**Regional Profile of Indian Agriculture** : Edited by Vadilal Dagli; Vora and Co Publishers Private Limited, Bombay; Pp 311; Price Rs 50.

**Labour-Management Relations—New Perspectives and Prospects** : Dr. V. R. Rao; D. K. Publishing House; Pp 136; Price Rs 25.

**Planning, Development and Economic Policy in India** : V. S. Mahajan; Kalyani Publishers, Delhi; Pp 340; Price Rs 30.

**PL. 480 and India's Food Problem** : B. R. Shenoy; Affiliated East-West Press Pvt. Ltd; New Delhi; Pp. 342; Price Rs 60.

HAVING RECOGNISED the urgency of the problem of population, India has been trying to deal with it in its own way. It has evolved a programme and a system to deal with the problem of overpopulation. Since 1951 the machinery of family planning organisation has expanded considerably with substantial growth in the number of its personnel and variety of administrative units at different levels. The management of this programme appears to be facing various difficulties and problems. N. V. R. Ram in his *Management and Population—A Systems View and Review of Family Planning Programmes in India* has made an attempt to examine "the management aspects of the family planning programmes subjecting the same to systems approach. Through this approach, operations are examined from the broad standpoint of programme policy, its success and results." The author's idea behind writing the book is "to promote a debate and discussion on the subject matter of management and population from the angle of programme management rather than from the viewpoint of medicine management, demography and numbers."

## pertinent issues

The author has raised some very pertinent issues while writing about the environment in which the family planning programme has to operate in India. The family planning has to operate in India under the following constraints.

One of the criteria for allocating central grants and funds to states is the total population of the state. This naturally conflicts with the family planning

programme as it would not be in the interest of the states to reduce population, if they want more finances from the central government. Similarly the number of seats for a state in Parliament is decided on the basis of population of the state. This again is a sort of disincentive for a state to reduce its population. Also in a democracy like that in India, the strength of a community lies in its numbers. There is thus fear that some communities may multiply faster and increase their political strength as opposed to other communities who adopt family planning as a way of life. And finally, family planning is a centrally sponsored and financed programme and the states have no stake in the success of the programme.

## programming of planning

As regards the programming of family planning, the author has stressed the point that in India family planning is a subsystem of its health system and has itself many subsystems. Thus the central government has fixed 156,000 as the number of technical personnel required for family planning programme. At present about 100,000 persons are employed. These personnel are spread over central government, state and district family planning bureaus, training institutes, and at the local level, the primary family welfare planning centres. The personnel is thus spread over different levels of government. Also many appointments are of purely temporary nature. Would such a system contribute to efficient execution of the family planning programme? The author also finds fault with the training system which

is not directed at those levels where it would be most effective. There is no systematic training programme; at every stage there is *ad hocism*. The author is also dissatisfied about 'Information subsystem'. At present there is hardly any rapid feedback of data on programme progress and control mechanism to rectify deviations in path. The information subsystem therefore requires improvement and further development.

In the light of his system analysis, the author has made a number of recommendations to improve the system and make the family planning programme more effective.

## reforming the education

A primary health centre covering the population ranging between 80,000 and 100,000 is not a viable unit of health administration at present. The physician-in-chief is not a managerial physician. The author is of the view that to train the medical doctor to become manager-physician cannot be achieved in isolation. This is possible only through reformation of the medical education in India. The policy should aim at incorporation of family planning management as a speciality in medical education for those doctors who are interested in family planning programmes and are seeking jobs there. The acquiring of knowledge and expertise in techniques should not make a person a natural claimant for its management. This must be realised by all professions including the medical profession and those not interested in management should serve as pure technicians in primary family planning centres. This means the selection for management posts should be carefully done and to attract right talent, recruitment from outside the medical field may be resorted to, if need arises. It must be kept in mind that family planning involves serious programme management with extensive social, political and economic implications and it cannot be the prerogative of either the civil servants or medical men to man these vital posts.

The author is also of the opinion that considering the results achieved by the

family planning services, the system is top heavy and 'ill-designed for an efficient programme management'. A thorough organisational analysis from the central level to the local level is necessary at this stage of programme development. At present, no body seems to be responsible for achieving the results. There is a primary need to fix the responsibility for programme achievement on an agency other than the combined ministry of Health and Family Planning. If the states view it as part of their developmental programme and conceive that the best way to achieve it, for example, is through the district collector's leadership and responsibility, the pattern of organisation at the top and at the state secretariat will have to be suitably modified.

The author has rightly pointed out that there are too many conferences, seminars, workshops and symposiums on family planning and the fact that money has been easily available has lent itself to "the creation of positions, departments, agencies and high-level conferences all leading to a gigantic research-oriented, group-concentrated, bureaucratic-intellectual complex". Only the management part of family planning programme and population control which in a sense are the most important part remain mostly neglected with the consequence that the programme so far has produced only marginal results.

Organisation has never been our strong point and one reason for our failure on the implementation side has been inadequate and faulty organisation we set up to implement our programmes. The author has very ably pointed out the inadequacies and deficiencies of management in the field of family planning. If the government is serious about this vital and crucial issues, sooner it pays attention to the organisational aspect along the lines suggested by the author, better will it be for all. Systems analysis has been attracting attention in India only in recent years and the author has done well to study the problem with reference to the family planning programme in India.

### Investment Forecasting

The industrial recession of 1967 attracted the attention of the authors and like many economists, managers and public leaders they were wondering whether the crisis could not have been anticipated. It is this awareness which has resulted into an exploratory effort the findings of which have come to be

embodied in *Short-Term Investment Forecasting*.

It is an accepted fact that economic forecasting is an important element in the process of formulation of national plans. Thus in India long-term forecasting has provided a broad framework within which various five-year Plans were formulated. Since the fourth Plan Indian planners have devoted increasing attention to annual Plans and this calls for proper assessment of the short-term outlook for the Indian economy. It is however no exaggeration, according to the authors, to state that "systematic forecasting which is a prerequisite for assessing the national economic outlook for the next six months or a year has seldom been attempted in India." Some government departments such as the ministry of Finance do make their own assessment of short-term outlook for the Indian economy and its different constituent parts; but these are informal assessments which remain mostly unpublished so that the public discussion of their assumptions, framework of analysis and sources of data etc. is completely ruled out.

### short-term predictions

The author has used the term 'short-term forecasting' to denote predictions for a period not exceeding two years. There are two main reasons which are advanced in India for the lack of short-term forecasting. These are data difficulties and secondly extreme uncertainties due especially to natural hazards. These may however be considered as occupational hazards and one must not give up the attempt at short-term forecasting because of these difficulties. It must be realised that short-term forecasting is of great significance not only at the national level but also at the industry and firm levels.

The first step towards the building up of a comprehensive model for short-term forecasting is to learn more about the parts that make up the total economic system. The authors' aim in this book is to examine only one such component of the national forecasting model, namely investment and to identify the types and sources of data required to perform the task of short-term forecasting. Investment is one of the most important determinants of the level of economic activity in the economy and hence the authors have concentrated their attention on short-term forecasting of investment activity, though they are quite aware that other variables and sectors of the economy must be covered for comprehensive short-

term forecasting for the economy as a whole.

The authors have arrived at some interesting findings. In respect of plant and equipment component of investment, the study has revealed that there is a reasonable and steady relationship between the orders for and deliveries of goods. Factors such as shortages of raw materials and technological changes in the short-run may disturb the stability in the order-delivery relationship. But the authors do not think that the impact of these extraneous factors would be so strong as to render short-run forecasting of investment impossible. A cross-section analysis of the order-delivery relationship for a sample firm confirmed the extremely significant role of new orders in determining deliveries and hence in forecasting investment in plants and equipment of the firm.

### major finding

But unlike in the case of plant and equipment, the authors have not been in a position to demonstrate the usefulness of anticipatory data in the field of construction. Their major finding on construction forecasting has been that municipalities and panchayats could be a valuable source of information on investment intentions in the construction sector. Local government bodies could generate advance signals of trends in residential, industrial and governmental construction, provided their data collection and reporting systems are appropriately reformed. Though a wealth of data is available with these bodies, no attempt has been made to shift and process them for forecasting purposes.

This study has also demonstrated the feasibility of using the project data with the leading term-lending institutions for purposes of forecasting private corporate investment. From the point of short-run forecasting, the most relevant data are those pertaining to the time phasing of capital expenditure on the projects. By aggregating this information one may be in a position at the beginning of any year to anticipate the capital expenditure likely to be incurred in the course of that year on all projects which received assistance from the term-lending institutions.

An important finding of the budget study is the superior-predictive performance of central government budgets in respect of both consumption and industrial development. This is also true in the case of state budgets where the predictive ability is generally greater



in respect of construction than in respect of industrial development.

On the basis of their analysis, the authors have made some recommendations to facilitate the making of more accurate short-term forecasting in the field of corporate investment in India.

Since the existing data was found inadequate for the purpose of short-term forecasting, the authors have recommended that "a comprehensive series on new orders and unfulfilled orders for and deliveries of plant and equipment be developed in India to facilitate investment forecasting". The series should cover plant and equipment expenditure in both private and public sectors.

As regards construction which is a very important sector of the economy especially from the investment point of view, since the authors did not find any useful anticipatory data, they have recommended that steps be taken to generate data on all-India basis in respect of both building permits and building contracts. Municipal and local bodies should be required to collect data pertaining to construction. To get complete data on construction, the central government and state governments should also furnish the required information to the local bodies concerned for the record.

Though the data on phasing of capital expenditure of projects is available with long-term lending institutions, they are never updated and hence lose anticipatory value. Also the reliability and comprehensiveness of the data at the level of state financial institutions leave much to be desired. In view of the important role which these institutions are playing in providing finance to industries it is important that the quality and coverage of their data be improved.

### useful exercise

The authors are also of the opinion that if budgetary documents are prepared on a common basis and are made readily available to researchers, forecasters in several industries and government agencies are likely to find them very useful. The authors believe that if these data stand the test of time they will not only be of value to investment forecaster but would also provide better understanding of the behaviour and relationships underlying the complex and comprehensive forecasting model for the entire economy.

In these days of violent changes and fluctuations, the importance of short-term forecasting cannot be over-em-

phasised. It will show the path which the economy is traversing and it is easier to set the economy on right path if the deviation is detected earlier than later. In view of this importance of short-term forecasting, the authors' attempt to probe this new field in spite of the overwhelming odds which they had to face is highly commendable. It must however be admitted that this exploratory attempt of the authors is extremely sketchy and tentative. The merit of the book lies in this that though the authors have not kept before the forecasters any comprehensive model for short-term forecasting, they have certainly succeeded in pointing out the vast gaps that lie in the way of successfully attempting short-term forecasting in India. Though the authors' contribution is mainly negative, it is nonetheless very important and of vital significance.

## Farming Perspective

*Regional Profile of Indian Agriculture* gives an integrated picture of the agricultural development in individual states of the Indian union since independence. Care has been taken to see that detailed information regarding area, population, agricultural inputs, mechanisation, agricultural marketing, flood control measures, impact of planning and land reform measures etc. is provided on a uniform basis to facilitate comparison between states in regard to agricultural development.

It is observed that the Indian agriculture has been running a chequered career during the post-independence period. However, despite the ups and downs, there is a steady upward trend in agricultural production. Since independence agricultural growth rate is about 2.9 per cent per annum compared with 1 per cent during the first half of the 20th century. There is no doubt that there is this historic qualitative change. But if we achieve the target of 5 per cent annual growth, that would probably make all the difference between poverty and prosperity.

We get excellent information and analysis of the so-called green revolution, a phrase which was very popular a couple of years ago but not heard of these days. A good part of economists' energy was spent in a naive debate as to whether or not green revolution took place in the country!

Those who were convinced that green revolution took place pointed out to the sharp increase during recent years in the use of current and capital inputs such as fertilisers, pesticides, tractors, electric

pumps and seeds of high-yielding varieties (HYV). The opponents pointed out that on the basis of growth in output there appears to be no evidence of green revolution. Agricultural growth rate which was 3.2 per cent per annum up to 1960-61 dropped to 2.6 per cent per annum during the subsequent decade instead of showing any rise. There is no doubt that there is no evidence of any acceleration of the growth rate of the agricultural production; on the contrary there is a distinct deceleration of the agricultural growth rate.

It would be seen that it is only in respect of nine crops—rubber, wheat, coffee, bajra, maize, ginger, rapeseed and mustard, sesamum and barley that one notices an increase in the growth rates of production during 1965-70. On the other hand the remaining 19 crops accounting for 81 per cent of the total weights recorded either fall in the rates of increase or stagnation.

Why did the green revolution just fail to take off? From the analysis in this book it appears that some of the important reasons for the failure were factors such as failure of the Indian scientist to develop miracle seeds in the case of many crops, particularly non-food crops, availability of irrigational facilities for only 22 per cent of the sown area, inadequate supply of chemical fertilisers, failure to develop a truly effective nation-wide extension system, failure of land reforms and continuance of tenancy and rack-renting and most important, the failure to develop motivation among the overwhelming majority of farmers, particularly the vast number of poor farmers who continued to be exploited as before.

### significant facts

As regards the regional dimensions of agricultural developments, the book has brought out some very significant facts to notice. If poverty is to be eliminated from the country, special efforts will have to be directed at those regions which are relatively more backward. Here all-India measures will not achieve the desired results. The policies and programmes at the implementation level will have to be developed for specific regions taking into account their specific features and problems. Of course, proper lessons can be drawn from the experience of progressive states such as Punjab and Haryana.

The diversities in agricultural development at state levels are very great. For example, the figure for net income per hectare in terms of rupees varies



from Rs 2716 for Kerala to Rs 583 in the case of Maharashtra and Rs 467 only in the case of Rajasthan. Similarly in regard to productivity of agricultural workers, it is noticed that the highest is in the case of Punjab (Rs 3195) while the lowest is in the case of Nagaland (Rs 409) the all-India average being Rs 1213.

Very important and relevant lessons can be drawn from the experience of relatively successful states such as Punjab and Haryana. The experience of Punjab emphasises the importance of hard-working and intellectual farming population, successful implementation of land reforms, provision of social and economic overheads, availability of irrigation facilities, provision of adequate electric power or any other source of energy, discovering of proper varieties of seeds and the key role of extension work in the agricultural field.

The terrible food crisis of 1972 and 1973 served as a reminder that the country must become agriculturally self-sufficient and agriculture must progress substantially if more than 10 crores of people or about one-fifth of our population who eke out a precarious existence on the border of hunger in rural India are to be provided with better living standards. This excellent volume which highlights agricultural development in all the states of the Indian union not only provides reliable and cogent information about various aspects of agricultural development but also provides indirectly the lessons which backward states can draw from the progressive ones. This book is certainly an excellent addition to the growing literature on the Indian agriculture.

### Labour-Management Relations

In view of the urgent need for stepping up production for which it is necessary that all the factors of production work in full cooperation, Dr. Rao in his *Labour Management Relations—New Perspectives And Prospects* feels that there is an urgent need to study labour-management problems in their proper perspective. Since the traditional approach of dealing with labour-management problems has failed to give India the necessary industrial peace, the author has fervently advocated that unless the employers act according to the Gandhian concepts of trusteeship of wealth and make employees partners in production the problem of labour-management relations will continue to disturb and disrupt the industrial sector of the Indian economy.

The author has analysed the prevailing

conditions of labour unrest in India and the manner in which the central government is trying to tackle this complex problem. The author is of the opinion that the present attitude of the government of appeasing the extremist elements indulging in violent agitations appears to have placed a premium on intimidation and intransigence. The author feels that the central government has not yet been able to evolve a credible approach to this problem of combining firmness with flexibility in right proportions for restraining politically oriented labour leaders from creating further economic dislocations by precipitating strikes and paralysing production. What should cause concern is the increasing tendency on the part of workers acting under political instigation to damage equipment and indulge in violence to reinforce their demands for higher wages and better living conditions. The state governments are especially finding it difficult to deal with this sort of lawlessness for fear of being dubbed as lackeys of capitalists by their own radical members. Government is mostly trying to play safe by siding with labour irrespective of the merits of their demands as a short of manifestation of their own commitment to socialism.

### working less and less

The author is of the opinion that a very serious feature of the present-day labour indiscipline is the tendency among workers to do less and less both among the public sector and and private sector enterprises and to demand more and more wages, allowances and concessions. The enormous number of working days lost through strikes and lockouts, slackness and lack of interest have been partly responsible for the present industrial stagnation. The government is unimaginative and is pampering labour too much. The author has warned that government will have to act with firmness and no section of the community must be allowed to hold the country to ransom.

The author maintains that his approach is practical and that the book is on his experience gained while conducting courses and seminars on subject of labour-management relations. Unfortunately the author has failed to take a comprehensive look at the problem and study it from various angles. For example, some researchers have come to the conclusion that the wage rates are not keeping pace with increase in labour productivity while there is another school which equally emphatically maintains that wage burden which has become disproportionate to labour productivity has been eating into the profits resulting in industrial stagna-

tion and unemployment. There is no doubt that that has been the case in some of the industries e.g. the printing press industry in Maharashtra. The government of India appears to have no labour policy and seems to be moving aimlessly according to pressures, though they appear to have taken a firm stand in recent loco and pilots' strikes. The author has failed to look at all these issues comprehensively. And after referring to the Gandhian approach to labour-management problem in the introduction, the author has just left it at that without making any effort to work out its implications. Labour-management problems in India deserve more careful and comprehensive study.

### Planning and Economic Development

Since 1951 the government of India has been trying to modernise the Indian economy by using various techniques in the fields of agriculture, industry, management, finance and transport. An attempt has been made by V.S. Mahajan in his book *Planning, Development and Economic Policy in India* to make a critical assessment of the achievements and failures in our efforts to rebuild the economy.

The author has pointed out that during the sixties and seventies there has definitely been significant advance in capital accumulation in various sectors of the Indian economy. But he feels that such accumulation of assets has not followed a well thought out path with the result that the economy has been facing the problem of unbalanced growth. This, according to the author, appears to be the most important single factor which has stood in the path of India reaching the goal of self-sustained growth. It also appears doubtful if the country can reach this goal in the near future. The author's prophecy is that "Any country which fails to reach the goal of self-sustained growth, within a period of two decades during the third quarter of the twentieth century, would have to be treated as a hopeless one." To some readers this may appear to be an extreme view; but unfortunately that has also been the conclusion which the World Bank has come to about India in its latest report.

The author has pointed out how agricultural gains have been neutralised by explosion in India's population. Also consumer and capital goods industries have failed to meet the challenge of rising demand because of government's rigid stand on the expansion of factory industries and also because of the difficult situation of inputs and lags in capacity creation by basic industries, especially,

steel. Of course, the biggest constraint on the industrial growth has been the state of health of the Indian agriculture which has been none too good. And there cannot be more rapid development in the agricultural sector unless the policy instruments and their implementation create confidence and enthusiasm among the rural households.

As regards industrial development, the author feels that though India has made rapid strides in the field of large industries, the position is still far from satisfactory. It is no use establishing new units or adding capacity to existing ones, when the country is not able to make optimal use of such capacity. The country must also be less dependent on the imported equipment and give an opportunity to her own technicians to manufacture such equipment using indigenous inputs.

### attack on basic defects

The author is of the opinion that there is need of vigorous attack on the basic defects in small-scale industries which government is trying to encourage. The author wants that in order to raise the competitive power of small units, a more satisfactory way would be to offer liberal subsidies and fiscal and transport concessions rather than put curbs on the growth of large units depriving the country from obtaining cheap goods from alternative sources. Mere reservation of markets would not solve the problems of small-scale industries; instead, it would only result in scarcities of various types of goods. The author has drawn pointed attention to the fact that public financial institutions are found hesitant in providing credit facilities to small industries. Even the state financial corporations which are primarily meant to promote regional industrial growth have tended to concentrate their resources on large industries. The author has therefore recommended the establishment of the small industries financial corporation in each state, with the objective of looking exclusively to the financial requirements of small industries. Of course the author is aware that finance is not all and that government should also provide basic infrastructure facilities which cater for the specific needs of small industries. As in most other fields, in the field of small industries also the basic framework drawn by the government of India appears to be fairly sound which implies that if this sector has also stagnated, the failure is mainly on the implementation front.

As regards the industrial finance, though the overall impression is that these financial institutions have done a fairly good job, they have hardly made

an attack on the problem of decentralised growth of industrial activity. The author has recommended the setting up of technical consultancy service at different places in the country to provide the necessary framework for tackling the problems of regional industrial growth on a more rational basis.

Looking ahead, what are the prospects for the seventies and early eighties? The author is of the opinion that one cannot be too certain about the near future. "The approach Paper lets out so much intellectual steam—computer programming, redistribution of consumption in favour of the downtrodden to the exact digit, resource matrix... that the man in the street finds himself puzzled."

The future will depend upon the steps which will be taken to mobilise resources. Will the government act according to a comprehensive tax reform drawn on the basis of the Wanchoo report and the Raj report? Or will it just pick up a bit here and a bit there from each, using recommendations of the one to neutralise the recommendations of the other? Will the government set up a definite programme and procedure for settling management-labour problems, especially in the public sector so that we do not have to import steel worth Rs. 200 crores annually because we lose two million man-hours in our steel plants? Will the government prosecute some of the high ups for corruption and remove many of the unnecessary controls which are the breeding ground of corruption? Or will it just stop with the prosecution of a small time sewage inspector? What will the government do about conspicuous consumption of which so much is being talked about? After all most of the goods that we see in city markets are being produced for only about 10 per cent of the Indian population. Maruti Enterprise which is scheduled to produce 50,000 cars a year by 1975-76 catering for the needs of the top one per cent of the people in India may well be the test case!

These and similar questions haunt a serious student of the Indian economy. Are there men of resourcefulness and vision to tackle the stupendous problems which India is facing? And above all men of honesty? How many are there? Even one? Where? Delhi? Patna?

### PL 480 Food

Though the food deficit in India was never more than 10 per cent or so at the current rate of consumption, the problem has bedevilled the economists, policy-makers, administrators and all. PL 480

*And India's Food Problem* is a book by the eminent economist, B. R. Shenoy, who seems to be ploughing his lonely furrow all these years. As in the case of all his books and articles, one notices in this book also his rigorous logic which would take equally rigorous analysis to refute.

As is indicated in the title, the book deals with two interrelated parts, namely PL 480 and India's food problem.

The first part of the book deals with the US exports of agricultural surpluses under PL 480 and examines the economic effects of PL 480 imports and the monetary consequences of PL 480 finance on India.

### adverse effect

The author has made a very strong case that "the PL 480 policy objective of self-help by PL 480 aid recipients calls for the limitation of food imports to the market deficit, the deficit in supplies in relation to demand. But wheat imports into India far exceeded market deficits and repressed wheat prices. This impinged adversely on the domestic production of wheat." To prove his argument the author has shown that when in 1960s PL 480 imports declined for all practical purposes to market deficits, the domestic production of food led by wheat registered rising trends.

Having examined the inflationary impact of PL 480 finance, the author has come to the conclusion that the inflationary effects ceased with the phased termination of the rupee payments for PL 480 imports in terms of the 1966 amendment to PL 480. But the expansionary effects of the expenditure from the unspent rupee balance of the USA still continue. According to Shenoy, the Rupee Settlement Agreement of February 1974 has "added to this hangover-inflation by providing for the monetization of the long-term rupee debt (both PL 480 and non-PL 480) held by the USA."

According to the author, India's food problem is basically the problem of nutrition deficits and of persistent market deficits. The nutrition deficit, a part of the problem of mass poverty, is very closely linked with the problem of general economic development of the country. On the other hand, the market deficit, though accounting for only about 3-4 per cent of the Gross Domestic Product and though the modernisation of agriculture can easily bring 8 to 12 times the national average yield at least in respect of wheat and rice, has been defying solution all these years.

Why could the market deficit not be

made up all these years? According to the author this was due to capital starvation of agriculture which was the direct consequence of the appropriation by the public sector of 60-65 per cent of the total investment resources. The author is emphatic that it is not possible to modernise agriculture without restructuring the overall pattern of resource allocation in such a manner that the agricultural sector gets its due share of credit and capital which have so far been denied to it. This capital starvation of agriculture has also resulted in the retardation of the general economic development of the country as agriculture accounts for nearly one-half of the Indian national product and provides a living to over 70 per cent of the Indian population.

### clear implications

The policy implications of the above analysis are very clear. The author is of the opinion that to tackle both the food problem and the problem of poverty, we must first scale down drastically public sector outlays; secondly, we must limit the pace of industrialisation with due deference to

the principle of comparative costs, and thirdly we must remove legislative and other hurdles in the way of farm finance. All these reforms are aimed at correcting capital misdirection that has been taking place and on the other hand restoring the creditworthiness of farmers and relative attractiveness of the business of farm finance. India's food problem is not as much the problem of devising and then taking new agricultural techniques to the Indian farmers but is rather a problem of the farmers being unable owing to credit and capital shortages to apply to farming the known technology with which many farmers are already familiar or can easily become familiar.

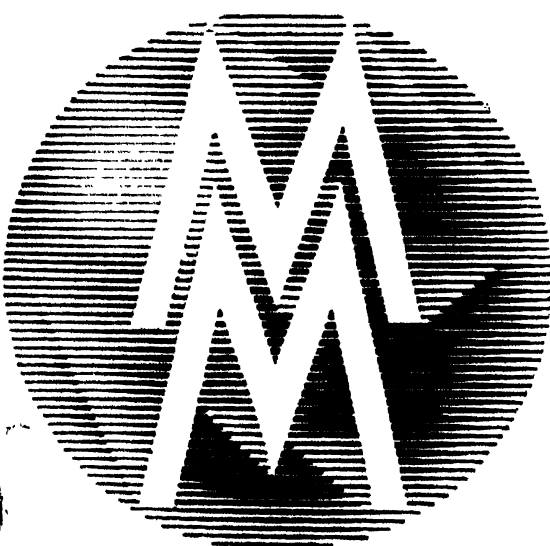
The author has supplemented his above main thesis by analysing recent policy measures—the decision of January 1972 to forego concessional wheat imports, the resulting pressure on the public distribution system, nationalisation of wholesale trade in wheat in 1973, the partial reversal of the nationalisation policy in 1974, the harsh incidence of these measures on wheat farmers, the consequent shift of land from wheat to other crops and operation dehoarding

in UP and some other states. The author is convinced that the chaos on the food front is apt to deteriorate further in 1974 and after, unless we soon correct the credit and capital starvation of the Indian agriculture. Pending these drastic measures there appears no escape from a return to PL 480 concessional food imports as adequate commercial imports are just beyond our paying capacity. The recent agreement on PL 480 has confirmed the author's worst fears and we appear to be back in square number one.

There is no doubt that there is a certain amount of validity in what Shenoy has to say. But the trouble with some of the senior economists is that by training and habit they have come to take certain positions from which they are not prepared to resile. Shenoy has discussed the food problem in India only in terms of a few variables such as price incentives and capital inputs to the entire neglect of others. If for example it were only repressed prices and capital starvation of agriculture that are responsible for the extremely tardy growth of Indian agriculture, how does he explain the fact that though about Rs 1200 crores

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Jaisons

were made available to agriculture in Maharashtra, it has failed to record any worthwhile progress during the last two decades and continues to be one of the agriculturally backward states in India, whatever the claims of V. P. Naik in this behalf? The main reason is that land reforms in Maharashtra have remained reforms only on paper and that the credit and capital have gone down the political drain. This means that agricultural revolution in India is not merely a matter of providing price incentives and credit and capital as the author seems to believe. The food problem in India has in addition moral, political and administrative dimensions of which the author is either unaware or does not think much about. Granted that there is resource misdirection by the planners, where however is the guarantee that credit and capital directed to agriculture

would automatically ensure their optimal use?

The case of agriculture in Maharashtra is refutation of B. R. Shenoy's thesis. How one wishes that agricultural reconstruction in India were only a matter of price incentive and availability of credit and capital!

And has Shenoy tried to work out the implications and consequences of a developing country such as India adhering to the principle of comparative cost in the sphere of industries? The classical theories have been discarded long ago and the author must realise that the problem of developing countries in 1970s can neither be adequately analysed nor successfully solved within the classical framework which the author learnt in early 1930s and beyond which he is not prepared to go in 1970s.

## Books received

**Survey of Industrial Housing**: Published by the Employers' Federation of India, 148, Mahatma Gandhi Road, Bombay 400023; Pp. 73; Price Rs 7.

**Poverty, Corruption and Inflation-History and Present Problems**: Dr. Sudhir Laxman Hendre; Supraja Prakashan, 52, Warden Court, Gowalia Tank, August Kranti Marg, Bombay 400036; Pp. 224; Price Rs 30.

**Political Administration of Indian Economy**: A.W. Nawab; Idarah-9 Adabiyat-9 Delhi 2009 Qasimjan Street, Delhi 110006; Pp. 351; Price Rs 50.

**International Conspiracy Against Indians**: Nageshwar Anand Maharaaj; Supraja Prakashan; Pp. 502; Price: Paper back Rs 35, Hardboard Rs 40.

**Growth Potentialities of Sultanpur - A Study in District Planning**: Dr. Kripa Shankar; Arthik Anusandhan Kendra, 26/1 Karailabagh Colony, Allahabad; Pp. 80; Price Rs 12.50.

**Fat Sasha the Urban Guerilla—Protest and Conformism in the Soviet Union**: David Bonavia; National Academy, 9, Ansari Market, Daryaganj, Delhi 110006; Pp. 193; Price Rs 5.

**The Crisis in Keynesian Economics**: John Hicks; Oxford University Press, 2/11 Ansari Road, Daryaganj, Delhi-6; Pp. 85; Price Rs 12.

**The Wealth of India, Industrial Products Part VIII; Si-Ti**: Published by the Publications and Information Directorate, Council of Scientific and Industrial Research, New Delhi; Pp. 301.

**Market Information Series United States**: Editor: A.C. Banerjee; Published by A.C. Banerjee for Trade Development Authority of India, 16, Parliament Street,

New Delhi 110001; Pp. 106; Price Rs 7.50 per copy; Annual subscription Rs 75 for 12 issues.

**Japan Quarterly Vol. 1 No. 1**: Editor Mrs. Kamala Shastri; Published by the India Committee for Studies on Economic Development in India and Japan, Yojana Bhavan, Parliament Street, New Delhi; Pp. 57; Price per copy Rs 5; Annual subscription Rs 17.50.

**Fertiliser Use on Selected Crops in India**: Jointly published by the National Council of Applied Economic Research and the Fertiliser Association of India; Pp. 182; Price Rs 15.

**Optimum Requirement of Fertilisers**

**for the Fifth Plan Period (Vol. I)**: Jointly published by Indian Statistical Institute Yojana Bhavan, Parliament Street, New Delhi 110001 and the Fertiliser Association of India, Near Jawaharlal Nehru University, New Delhi 110057; Pp. 148; Price Rs 15.

**A Study on Fertilizer Demand and Marketing**: (Fertiliser Distribution and Marketing Facilities): Vol III-All India Summary Report: Published by the Fertiliser Association of India, near Jawaharlal Nehru University, New Delhi 110057; Pp. 374; Price Rs 25.

**New Dimensions of Monetary Management**: R.J. Mody; The Macmillan Company of India Ltd., 2/10, 4252, Ansari Road, Daryaganj, Delhi 110006; Pp. 124; Price Rs 40.00.

**Taxes and Incentives: A Guide for Investors**: Published by Indian Investment Centre, "Jeevan Vihar" Parliament Street, New Delhi-110001; Pp. 146; Price Rs 10.

**Tax Incentives and Export Incentives in India**: Published By Indian Investment Centre; Pp. 21; Price Rs 5.

**Development of Marginal Farmers and Agricultural Labourers**: S.M. Pandey; Shri Ram Centre for Industrial Relations and Human Resources, 5, Sadhu Vaswani Marg, New Delhi 110005; Pp. 116; Net Price Rs 20.

**Economic Blocs and US Foreign Policy**: Ernest H Prege; National Planning Association, 1606 New Hampshire Avenue, N.W. Washington D.C. 20009; Pp. 202; Price \$ 3.50 paper; \$7.95 Hard Cover.

**Life Insurance finance in India**: O.P. Bajpai; Vishwavidyalaya Prakashan, Chowk, Varanasi-221001; Pp. 316; Price 40. Rs

## RECORDS AND STATISTICS

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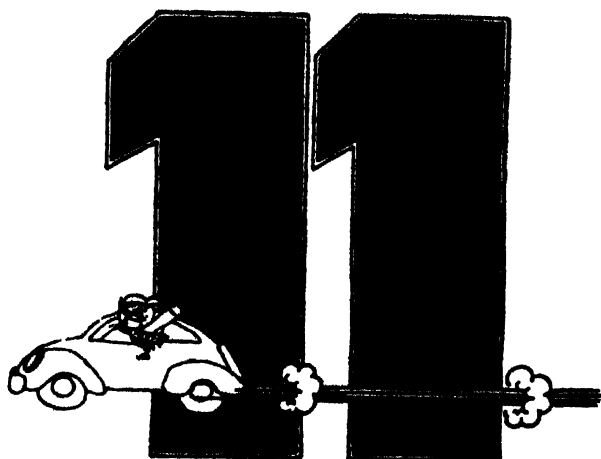
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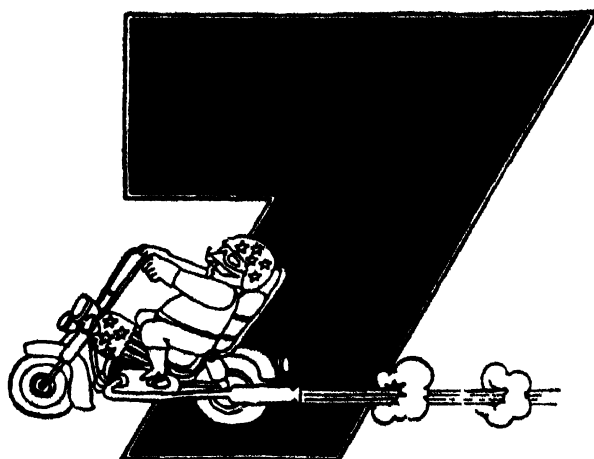
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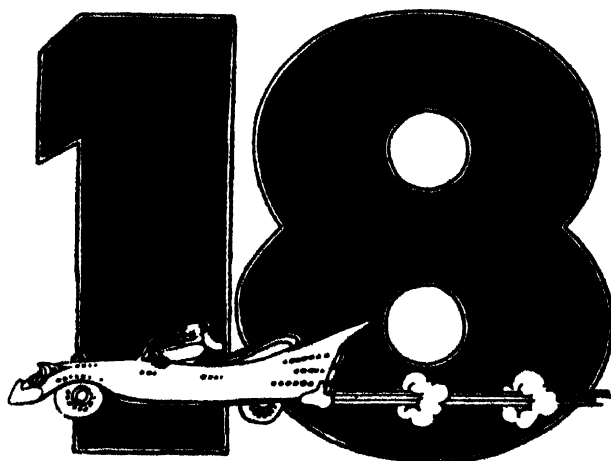
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# TRADE WINDS

## Guidelines on Textiles

**GUIDELINES** HAVE now been formulated by the government for creation of additional spinning, weaving and processing capacities in the cotton textile industry during the fifth Plan period. According to a notification issued by the textile commissioner, new spinning units will be permitted in the public, cooperative, joint or private sectors in that order of preferences, excluding those attracted by the MRTP Act. Such units may be set up in the areas where there is an unsatisfied demand for yarn from handloom and powerloom weavers or in areas which have adequate supply of cotton but lack in processing capacity. Existing units will be allowed to expand beyond 25,000 spindles in suitable cases on the basis of availability of resources, past performances, and capacity to raise funds from financial institutions. Additional spindles required for correcting the imbalance between spinning and weaving capacity, including those required for loomage expansion will be allowed.

The expansion in spinning capacity will be subject to two conditions; (a) the units will have to supply their production in the hank or cone form, as advised by the textile commissioner and (b) 90 per cent of the new spinning production should be below 40S count. Existing composite mills will be allowed additional loomage with corresponding spindleage, provided they undertake to export not less than 30 per cent of the production of the looms in addition to the maintenance of past exports. Independent processing capacity, including

expansion of existing units, will be permitted to cater to the group of producers of yarn or cloth who do not have their own processing facility, particularly those in the handloom and powerloom sectors. All those interested in expansion of capacity or putting up new units would have to apply to the ministry of Industry before February 15.

## Duty on Cotton

The government has now decided to reduce the import duty on Pakistani cotton by 25 per cent. This has cleared the way for speedy finalisation of the deal. The duty reduction will be on all comparable varieties of cotton. The decision has been taken to overcome the practical difficulties involved in implementing the earlier measure to adjust import duty in a manner so that the price of cotton was on par with that of Indian cotton or slightly less.

## Central Loan

The central loan for Rs 75 crores floated recently has fetched New Delhi a total subscription of Rs 78.10 crores. The second issue of 5.25 per cent 1978 loan attracted a subscription of Rs 17.64 crores and the six per cent 1988 loan Rs 60.46 crores. Earlier this year, New Delhi collected a net subscription of Rs 416 crores in two instalments from the market. The latest collection brings the total net borrowing from the market by the centre to Rs 494 crores. The budget for 1974-75 has taken credit for net market borrowing of Rs 498 crores.

## Machine Tools Export

Machine tool exports from India will hereafter be chan-

nelised through a newly-floated subsidiary of the Hindustan Machine Tools, the HMT (International) Limited. The new company, the second institutional arrangement for exports, after the steel sector, will cover not only HMT machine tool products, including watches, but also the products of other companies in the same line. Giving details of the new company, the chairman of HMT, Mr S. M. Patil stated recently that the new organisation, together with other supporting measures, would push up the share of HMT's exports in its total turnover to nearly 25 per cent within the next five years. Dr Patil stated that in the next three years, HMT's exports were expected to increase three-fold to reach Rs 12 crores a year. While HMT's annual production would reach Rs 100 crores in the next five years. Its exports were expected to touch Rs 20 crores per annum. He added that HMT wanted to enter several new markets including those in Iran and Iraq. Several ECAFE countries such as Indonesia and Thailand, also offered scope for HMT exports. HMT (International) would take over the business now carried on under its exports division and by its foreign branches in Australia and Luxembourg. The objectives were two-fold—to earn more foreign exchanges for the company and use the export market to enrich the company's technological competence.

## Crude from UAE

This country is understood to have approached the United Arab Emirates for the supply of crude oil over a fixed period. The UAE has agreed to consider the Indian request. This indication was available after discussions between the UAE minister for Petroleum and Industry Mr Mana Saeed Al-Otaiba and the union minister for Petroleum and Chemicals Mr K. D. Malaviya. During discussions UAE minister expressed a keen desire to cooperate with India on oil exploration, particularly in off-shore areas. Similar desire

for cooperation in other fields was also expressed in talks between visiting UAE ministers with their Indian counterparts.

## Coal Output

Coal production is expected to rise to the record level of 100 million tonnes during 1975. Latest estimates available with the ministry of Energy have raised new hopes. According to these estimates, there would be an increase of 10 million tonnes in coal production during 1974, which would take coal production to 88 million tonnes. According to a spokesman of the ministry of Energy, the production during the first nine months of 1974 (April to December) was 5.67 million tonnes higher than the corresponding nine months of the last year. The increase in production has made it possible for the industry to switch over from furnace oil to coal. More than a million tonnes of coal has been diverted to consumers who had been using furnace oil.

## Indo-US Panel

The three sub-commissions of the Indo-US joint commission set up during the recent visit of US Secretary of State, Dr Henry Kissinger, would hold their first meetings towards the end of this month. The joint commission itself held its first meeting during the visit of Dr Kissinger and the next meeting of the commission is expected to be held early this year in Washington. The union minister for External Affairs, Mr Y.B. Chavan, is expected to visit Washington for the meeting.

The economic and commercial sub-commission is meeting on January 20 and 21 in Washington. The Indian team for this sub-commission will be led by Mr M.G. Kaul, secretary in the economic affairs department. Mr Enders, economic and business affairs assistant secretary of state of the United States, will lead the American team. The Indian team for the science and technology sub-commission will be led by Dr Nag



Choudhury, Vice-Chancellor of Jawaharlal Nehru University and the American team for this sub-commission will be led by Dixie Lee Ray, assistant secretary of environment and science. This meeting is being held in Washington from January 27 to 29. The third sub-commission, with Mr G. Parthasarathy as the leader of the Indian team will meet in New Delhi from February 3 to 5. The American delegation for this commission will be led by Dr Robert Goheen, president of the Princeton University.

### Indo-Pak Trade Pact

The union cabinet has approved the Indo-Pak Trade Agreement. The major item of import from Pakistan this year will be cotton. India is expected to export jute goods. This country is likely to buy for the present only 100,000 bales of cotton because of domestic good crop this year and the imports already concluded with other countries. The trade with Pakistan is, being resumed after nearly a decade. The trade agreement was concluded following the protocol signed in the end of November last.

### Bank Take-over in Ethiopia

Ethiopia's military rulers have nationalised all banks and insurance companies. An announcement by the ruling provisional military council to this effect was read over radio Ethiopia. On December 20, the council stated that it would turn Ethiopia into a socialist state with a one-party system, direct government control over most of the economy, and collective farming on government land. The announcement stated all that shares in the banks which would come under the supervision of the national bank of Ethiopia, would be taken by the government. "Due compensation would be paid," the announcement added, but gave no further details.

### US Bank Rate

The United States recently lowered its bank rate to 7.25 per cent from 7.75 per cent.

The action, taken to prop up a weakening economy, became effective on January 6. The effect of the cut is to make borrowing by commercial banks from the federal reserve cheaper.

### Leipzig Spring Fair

The accentuation of interesting display ranges of trade groups by means of Special Groups which was initiated in 1972, will be continued in the 1975 Leipzig Spring Fair. In next Spring Fair the "Automation Equipment and Techniques" Special Group, within the electrical engineering trade group, will exhibit the latest developments in the field. Leading manufacturers from 18 countries will exhibit their products. Instruments and equipment for all stages of a regulating circuit are the object of a Special Group. An international symposium "Pneumatic and Electronic Control for Automation Engineering" and a series of lectures on new products of automation engineering will provide the important scientific-technological information.

### Gold Sale in the US

Gold bullion went on sale on January 1, 1975 in the United States for the first time in 41 years at world record prices. The yellow metal was sold at \$203 an ounce for delivery in July 1975, breaking the \$200 barrier which influences market confidence. New York Senator James Buckley bought two and a half ounces at \$192 an ounce at a special ceremony in New York just after mid-night. New York is an hour ahead of Chicago in time and scored on the mid-American commodity exchange, which opened here one minute after midnight for a brief session. At the close of the session, which was in gold futures trading, gold for February delivery was priced at \$195 an ounce, for March at \$195.50, for May \$201.50 and for July at a nominal \$203.

In London gold was traded at around \$173.00 an ounce on Saturday, January 4, 1975. This was a dramatic drop from a peak of \$198.75 an ounce just before the fixing on Monday, December 30, 1974.

### Money Supply

During the current busy season so far from October 25, to December 6, 1974, money supply has shown a smaller increase of Rs 139 crores (3.1 per cent) according to latest available official studies. The figure for the corresponding period of the 1973-74 busy season was Rs 174 crores (7.3 per cent).

The expansion in money supply at Rs 338 crores (3.1 per cent) during the current fiscal year (March 29 to December 6 1974) was much lower than that of Rs 690 crores (7.3 per cent) in the same period of the previous fiscal year. This was mainly attributable to smaller increases in net bank credit to government and bank credit to the commercial sector of Rs 689 crores and Rs 452 crores, as compared to Rs 1,092 crores and Rs 847 crores respectively in the preceding year.

Net foreign exchange assets of the banking sector have recorded a larger decline of Rs 225 crores as against only 47 crores in the last year. Over the year ended December 6, 1974, increase in money supply at Rs 1,071 crores (10.6 per cent) has also been lower than that of Rs 1,564 crores (18.3 per cent) over the preceding year.

### Irano-Hind Shipping

Indo-Iranian trade is to be boosted up with floatation of a joint shipping company in Iran. The Irano-Hind shipping company, a joint venture of the Arya National Shipping Lines and the Shipping Corporation of India, will organise and operate "efficient shipping services between India and Iran" as well as to ports in the Far East and on other routes to be mutually agreed between the two promoting companies.

### Vanaspati Decontrol

The union government has decided to lift statutory price control on vanaspati with immediate effect. The government's decision follows a marked improvement in the supply position of vanaspati and assurances by the manufacturers' association on behalf of the industry, to improve production

and to take steps to ensure that prices charged by factories are kept under check, it was officially stated. The industry is being required also to restrict the usage of groundnut oil to the barest minimum (25 per cent for the time being to be progressively reduced further) and to depend more on non-traditional oils such as cottonseeds and rice bran oil.

### Names in the News

Union Carbide India Limited, at its Board meeting on December 19, 1974, announced the appointment of Mr P.C. Banerjee as a whole-time Director of Finance of the Company, replacing Mr John McGee who is leaving this country. The Chairman, Mr Keshub Mahindra, announcing the appointment of Mr Banerjee as Chief Financial Officer, stated that out of 10,000 employees of Union Carbide India the number of non-Indians has now been reduced to just three.

Mr S.Z. Varcie, Executive Director of the Tata Oil Mills Company Limited, has been elected Chairman of the Processed Food Export Promotion Council at their Annual General Meeting held on December 23, 1974 at Bangalore. Mr Varcie is the Chairman of International Fisheries Limited, a Director of UNITATA, which is a joint venture of the Tata Oil Mills Company in Malaysia.

Mr M.V. Subba Rao till recently General Manager of Andhra Bank Ltd has been taken over as Chairman-cum Managing Director of the Export Credit and Guarantee Corporation Ltd.

Managing directors of the five nationalised banks who are to continue in their post for another 15 months are also to function as chairmen of their respective boards of directors, according to official notifications issued recently. They are Mr V.D. Thakkar, Bank of Baroda, Mr V.R. Desai, United Commercial Bank, Mr K.K. Pal, Syndicate Bank, Mr P.F. Gutta, Union Bank of India, and Mr G. Lakshmi Narayana, Indian Bank.

# COMPANY AFFAIRS

## Tax Concessions to Unit Holders

**N** ORDINANCE was promulgated on January 7 granting additional concessions in income tax and wealth tax to holders of units of the Unit Trust of India. So far income of up to Rs 10,000 per year accruing from approved investments, including units, has been exempted from income tax. Under the present ordinance, an extra Rs 2,000 of income from units will be exempted. Wealth tax exemption will also be given to the extent of Rs 25,000 over and above existing limits for investments in units.

Circumstances have forced the government to announce these concessions. At present the units yield only about 8.5 per cent per year, which is very poor as compared to interest offered by reputed private companies and even banks, which offer 10 per cent on long-term fixed deposits. Recently thousands of unit holders have sold their holdings back to the Unit Trust, which has consequently suffered a severe cash drain. It is hoped that the new concessions will revive public interest in units.

## Sakthi Sugars

Unless a suitable forward pricing policy is evolved and price of Rs 125 per tonne of cane for a basic recovery of 5 per cent for 1975-76 is announced early, planting on the required scale may not take place and there may even be a decline in the area under cane. The all-India production of sugar for 1975-76 may even fall sharply to 32 lakhs tonnes. An immediate decision on the lines suggested above is to be taken. This observation

was made by Mr N. Mahalingam, the Chairman of Sakthi Sugars Ltd. while addressing the annual general meeting of the company. In regard to excise duty rebate the chairman welcomed the present scheme of full excise duty rebate in October and November. However, the chairman felt that a more liberalised approach is essential to make the factories crush even in the low recovery months of June and July so that more sugar can be produced.

As Tamil Nadu is a surplus state, the mills have to sell sugar in Calcutta and other north Indian markets for which a transport charge of Rs 18 to 20 per quintal has to be incurred. Due to this factor, the free market realization of the south Indian sugar mills when compared to those of the north is lower by about Rs 20 per quintal. Hence the chairman felt that it will be an effective incentive if the Tamil Nadu government can give some concession in the purchase tax at least in respect of the sugar sold in the north Indian Markets.

The directors of Sakthi Sugars are fully aware of the new opportunities available to the industry and has already succeeded in developing a large-sized complex. With the completion of the 4000-tonne programme, it is possible to maximise crushing operations during the peak of the season and improve the recovery of sugar. Hence, the directors feel that in the current year the factory has to concentrate on improving this efficiency of the existing plant and machinery so that the management can be in a position to implement expansion to 5000 tonnes easily. The intension presently is to

avoid crushing in the hot season when there will be a lower recovery and concentrate on crushing during the periods when maximum recovery can be secured. The preliminary work connected with the project for manufacturing furfural with foreign technical know-how, is in good progress. The details of this giant project is now being worked out. All these activities will naturally result in the development of a huge integrated complex in the Sakthi Sugar area and lead to the effective use of the by-products.

## Kothari Sugars

The incentives announced by the government for intensification of cane development and also for quantitative im-

provement in sugarcane production had the desired result as a large number of factories started crushing operations earlier than usual despite high costs of production. However, the excise duty rebate scheme announced by the government for the season 1974-75 is disappointing and may not result in any substantial increase in production. Under this scheme, seasons have been divided into two periods viz. early and main, and eligibility of concessions is based on the average production of the preceding five years during the corresponding periods. It might benefit the industry if this period of five years is reduced to three years and if the system of excise concessions are continued in future also with some adjustments in regard to the duration of the main season, which could further be divided into two viz. peak recovery period and low recovery period. The additional excise duty rebate should be extended to low recovery period also. These observations are contained in the Chairman, Mr. D. C. Kothari's annual statement circulated to the shareholders



CHVS-52-102



of Kothari Sugars and Chemicals Ltd.

The attention of the government, the chairman said, has been frequently drawn by the industry to the fixation of a remunerative price to the sugarcane grower in order that the production of sugar could be increased to achieve the target set by the government. Hence it is imperative that the price for cane should be commensurate with the level of prices obtained by the growers of other commercial crops. Even the recent revision in the basic price for cane announced by the government does not obtain a remunerative price for the sugarcane growers. The prices paid by the industry are much higher than these basic minimum prices fixed by the government. Another important factor that has to be given consideration by the government to give a boost to production of sugar, in the chairman's opinion is the fixation of a realistic and economic price for levy sugar. It used to be the usual practice of the government, given up in the year 1969-70 onwards, to fix provisional levy price before the beginning of the season on the basis of an estimated recovery and cost of production of cane. The prices now prevailing for levy sugar are highly uneconomical which necessitates increase in price of free sugar to make up the loss.

Sugar industry again, is largely dependent on bank credit for financing its production. As there has been sharp rise in costs of raw materials and stores and as production is also expected to be higher, the credit requirements of the industry will be naturally higher this year than in the preceding year. Hence the chairman pleaded for considerable relaxation in credit curbs.

### Madras Refineries

The Madras Refineries Ltd achieved a record crude throughput of 2.61 million tonnes during the year ended June 30, 1974. Production of 'Indane' gas (LPG), high speed diesel,

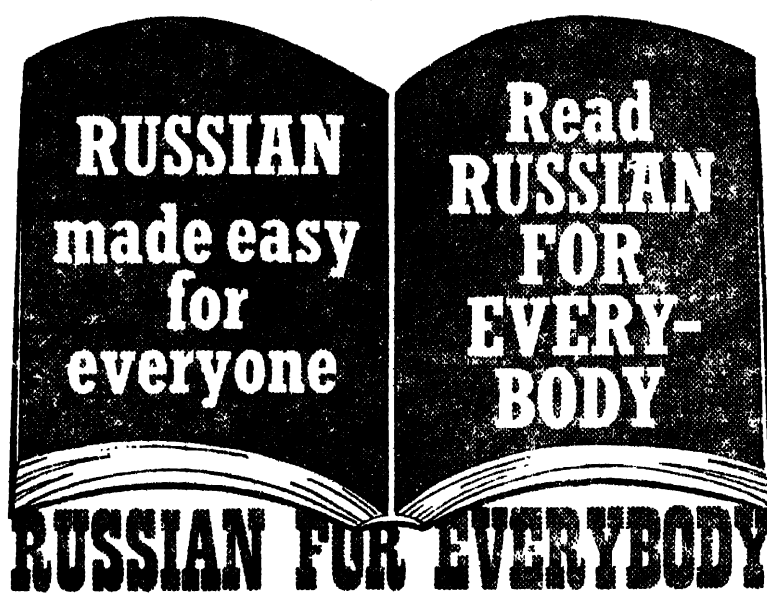
lubricant base stocks and asphalts increased by 23.2 per cent, 8.6 per cent, 3.7 per cent and 5.3 per cent respectively over that of the previous year. The refinery fuel consumption was reduced by a further five per cent as compared to the last year, saving over Rs 1.3 crores at the current crude oil prices. This is indeed a significant achievement.

The refinery crossed the 10-million tonne mark in the manufacture of petroleum products in May 1974. The total value of sales during the year was Rs 13,937 lakhs as compared to Rs. 6,530 lakhs in 1972-73. During the year the company repaid a loan of \$ 1.86 million to the foreign lending institutions and Rs 2.25 crores to the government

of India. The outstanding dollar and rupee loans as on June 30, 1974 stood at \$ 8.16 million out of \$ 22.32 million and Rs 836.72 lakhs out of Rs 2025.31 lakhs. The net profit for the year was Rs 6.71 crores. After providing Rs 5 crores for development rebate reserve the directors have recommended a dividend of 12 per cent gross on the paid-up equity capital amounting to Rs 1.54 crores. A dividend of 12 per cent gross was paid for the year 1972-73 also.

The company has made tremendous progress since its inception. The ground breaking ceremony for the refinery and the fertiliser plant was performed by the Prime Minister Mrs Indira Gandhi in January, 1967. The years 1967 and

1968 were spent in setting up the refinery including the lubricant oil complex and after initial trial runs the formal inauguration was performed by the President of India in September, 1969. During the five years since the commencement of production, its efforts on the physical side has been progressively towards maintaining and improving the installed crude processing capacity, increasing the production of high priced products, improving capacities of many plants by minor de-bottlenecking, reducing the refinery fuel and loss and developing new products. On the financial side, the company incurred a loss in the first of its operations and it was largely due to causes which were



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extraneous to its own operations. It was able to wipe out the loss and make a profit in the second year, and declare dividends for the three subsequent years in succession ending June 30, 1974.

### Shaw Wallace

The Computer Services Division of Shaw Wallace started operating recently. The Division is housed in the Shaw Wallace premises, Madras and has the ICL 1901A Model with card reader, line printer, four tape decks and two disc drives. The necessary software facilities are available on a turnkey basis—punching of data cards, verification, validation, transcription on to magnetic tapes, processing of tapes, programming. The Computer Services Division can handle a total project—from a feasibility report to the actual implementation. The Division will undertake smaller jobs too like developing a computer system according to the clients' specifications. Computer time can also be rented and the customer can use his own programmers and operators for clients in or around Madras, hardware and software facilities are available on a regular daily, weekly or monthly basis. In addition, the Computer Services Division offers a total consultancy service. All the computer services, including the consultancy service, are also offered to clients abroad. A major advantage is that both data preparation and processing and programming costs in this country are appreciably lower than those prevailing overseas. The Computer Services Division is available to government and private concerns, large hospitals, industrial units, educational institutions, etc.

### Delhi cloth

Over the years the shortage in wage goods industries as much as in certain basic industries and in infra-structural facilities have occurred, primarily because management of both public and private sector undertakings is never allowed

a free hand. While the former is hamstrung by bureaucratic regulations the latter is subjected to an unbelievable mix of ideology and regulations in detail with the result that the overall major objective of speeding up economic growth has not been achieved. Thus the country is faced today with a critical situation where two opposite forces are at work. On the one hand, the back of inflation has not yet been broken, and on the other there seems to be a beginning in the decline of economic activity which may develop into a recession. The anti-inflationary measures adopted by government even though they have caused some difficulties, it is generally felt were necessary. But the question is as to how long the government should stick to these measures, and whether some adjustments have to be made, if only to ensure that the measures do not become counter-productive and result in creating new problems like wide-spread unemployment, which would be very dangerous.

When dealing with two contrary trends, a delicate balance of course, has necessarily to be struck. Stability and growth represent two sides of the same coin. One cannot be pursued at the expense of the other. This is neither possible, nor desirable. What is called for, therefore, is the reorientation of policy on the principle that economy lies not so much in reducing expenditure, but in making wise expenditure decisions. Hence it is necessary that while retaining a certain amount of control over credit, the government must at the same time encourage investment in industries. To achieve the maximum benefit out of investment priorities for investment must be in agro-based industries and wage-goods industries. The other important field of investment must be in power, since the country has lost a good deal of production due to the existing capacities not being fully utilised because of power shortage. These observations were made by Dr Bharat Ram

the Chairman of Delhi Cloth and General Mills Co Ltd while addressing the annual general meeting of the Company.

The Companies (Temporary Restrictions and Dividends) Act according to the chairman, could have been conceived in a more imaginative manner. The provisions of this Act do not freeze dividend but in fact result in the reduction of dividend payment. It is, therefore, not comparable with Additional Emoluments (Compulsory Deposit) Act, which impounds additional payments, but does not prohibit such payments being made. While the minimum dividend sum involved is estimated at only Rs 50 crores and is not likely to have an excessive influence on the demand factor, its impact on investment sentiment has been disastrous. Even the stated objective of government could have been secured, the chairman stressed, if companies were allowed to pay dividends, as before the Act, but dividend in excess of that permitted by the present Act was to be compulsorily deposited in the company and made payable with adequate interest say, 2.5 per cent over and above the Bank rate, after a period of two years. This would have given the shareholders the satisfaction of having earned the dividends, and what is more important it would not have had a depressing influence on the new issue market. Similarly, the measure of credit squeeze was imposed rather illogically as it froze the borrowings of companies as on a particular date viz. October, 31, 1973. The result of this has been that those companies who had managed their affairs well on that particular date, suffered most. In addition, those companies who had large seasonal requirements like textiles, vanaspati and sugar, were put to great difficulties.

### Punjab National Bank

Punjab National Bank has registered sizeable progress in almost all spheres of its activities, except in the field of deposit mobilisation. There

was of course a general slackness in deposit growth in the entire banking system, but the impact on PNB was more pronounced. PNB's deposits rose to Rs 830 crores from Rs 741 crores—an increase of 12 per cent in 1974, as against a rise of 19 per cent in 1973, while in the case of the banking system as a whole the rate of growth in deposits decelerated from 20 per cent to about 15 per cent. The reasons for the slower growth in PNB's deposits last year, of course, are not far to seek. Deposits for this bank have traditionally been a "walk-in" business with little attempts being made to mobilise them. Secondly, as with its credit, PNB's deposits have suffered from seasonality, though contra-seasonally to credit. Moreover, PNB had been relying very heavily on savings and fixed deposits from farmers and fixed income groups whose contribution last year declined considerably. Further, the share of institutional deposits in the aggregate was very low. A drive has now been launched by the bank to arrest the declining trend in deposits. A full-fledged deposits division has been created to address itself exclusively to the task of deposit mobilisation. Steps are also being taken to introduce marketing approach to deposits with a definite branch-wise programme. Besides, a sustained effort is proposed to be made for securing institutional deposits.

The achievements of PNB on the credit front, on the other hand, are quite significant. There was further acceleration and diversification in the Bank's credit portfolio during the year. The credit shot up to Rs 500 crores, registering an expansion of 16 per cent over 1973, as compared to 14 per cent for the entire banking system. The credit provided to public sector enterprises too rose spectacularly to Rs 60 crores, recording an increase of 186 per cent over 1973. Priority credit, comprising advances to agriculture, small-scale industries, transports exports, etc. in which PNB had lagged behind the

banking system as a whole, picked up reasonably well in 1974. This credit went up to Rs 165.5 crores, as an increase of as much as Rs 39.4 crores or 31 per cent over 1973. Excluding exports, priority credit rose by 29 per cent and accounted for 24 per cent of total credit. On the profits side, the bank has recovered its position. Provisionally the net profit for 1974 is put at Rs 3 crores, as against Rs 2.4 crores in 1973.

The PNB has budgeted to mobilise deposits to the order of Rs 960 crores during the current calendar year, as against Rs 830 crores last year. Credit is envisaged to be expanded to Rs 600 crores from Rs 500 crores at the end of December. Assistance to be provided to priority sectors is proposed to be increased from Rs 165 crores to Rs 230 crores. A target of opening 100 branches has been set for the year. This will raise the number of branches to 1200 in 1974. In 1973, 85 new branches were opened, of the new branches to be opened this year, 51 will be in the rural areas, while 17 will be in semi-urban centres. As many as 51 branches are proposed to be opened in unbanked centres.

Talking to newsmen while releasing the above facts and figures about the working of the Bank, the Chairman, Mr P.L. Tandon, expressed the view that the rate of growth in bank deposits in general last year had been affected significantly by the rush for public deposits by the corporate sector and the two compulsory deposit schemes launched by the government to contain inflationary pressures in the economy. He stressed the need for greater discipline by the traditional industrial sector so that its legitimate requirements of bank credit could be met reasonably.

## News and Notes

An ambitious programme to flood Uttar Pradesh with milk & milk products within a year is currently on under the aegis of *Pradeshik Coop. Dairy Fed.*

*Ltd.*, the apex body of dairy cooperatives of the state. The Federations' major activity at present is the infant milk food factory at Dalpatpur. Set up at the cost of Rs 1.40 crores it started commercial production in January 1971 and today is working in three shifts to its full licensed capacity. The union government has now issued a letter of intent for increasing the present capacity of the factory from 1500 M.T. to 3500 M. T. per annum. The plant for the additional capacity will be installed next year at the cost of Rs one crore. The state government has already advanced Rs 22 lakhs for the expansion programme. Moreover the Federation has been entrusted with the implementation of the 'Operation flood' scheme under the World Food Programme in eastern and western parts of Uttar Pradesh.

Under the scheme two new dairies at Meerut and Varanasi having a handling capacity of one lakh litres of milk per day and involving an outlay of Rs 1.975 crores and Rs 1.716 crores respectively are to be set up by the end of 1975. Simultaneously, two cattle feed factories are to be set up at Meerut and Varanasi. Various other programmes to increase milk production in the district under 'Operation Flood' are being undertaken at a cost of Rs one crore. Milk procurement and development activities had already been initiated in the Meerut region and would be taken up shortly in Varanasi region. The objective is creation of a pipe line by the time the dairy units goes into production.

## New Issues

*Tamil Nadu Chemicals Products Limited (TCP)*, a company jointly promoted by Tamil Nadu Industrial Development Corporation (TIDCO) and Mr B. Ananthaswami, is setting up a unit for manufacture of 3300 tonnes per annum of sodium hydrosulphite—a chemical extensively used in the textile industry and also

in other industries like sugar, etc. The project is being set up at Karaikudi, a declared backward area, and consequently the company will be entitled to central government subsidy of Rs 15 lakhs and also to several other benefits. The plant is expected to go on stream by January 1976. The total project cost is about Rs 4.5 crores out of which share capital is Rs 155 lakhs. The balance will be found by way of loans and central government subsidy. Out of the share capital, Rs 130 lakhs consist of equity and the balance Rs 25 lakhs in preference. Fifty-one per cent of the equity capital has been subscribed by the promoters. The remaining 49 per cent, namely Rs 63.70 lakhs and the entire preference shares of Rs 25 lakhs is now being offered to the public. The subscription lists opens on January 30. The entire public issue is underwritten.

The existing manufacturers of hydrosulphite are adopting what is known as the Zinc Pro-

cess. The cost of production in this process is on the high side. The company the other hand has obtained an exclusive technology from Mitsubishi Corporation, Japan, by which the use of zinc as raw material is avoided and sodium formate is used instead. Consequently the cost of production will be considerably cheaper than that of existing manufacturers. By reason of the new technology, the company will be saving nearly Rs 85 lakh of foreign exchange every year on import of raw material. Against the total indigenous demand of 11,000 tonnes per annum of hydrosulphite which is expected to go up to 13,000 tonnes by 1976, the total production by the existing manufacturers, is only of the order of 8,000 tonnes per annum. Nearly 50 per cent of the company's production will be consumed in the state of Tamil Nadu, mainly by the handloom sector. Hence the company does not envisage any difficulty in marketing its products.

## Dividends

(Per cent)

| Name of the company      | Year ended        | Equity dividend declare for |               |
|--------------------------|-------------------|-----------------------------|---------------|
|                          |                   | Current year                | Previous year |
| <b>Higher dividend</b>   |                   |                             |               |
| Navasari Cotton          | December 31, 1973 | 15.0                        | 10.0          |
| Petlad Bulakhidas Mills  | March 31, 1974    | 10.0                        | Nil           |
| Rajkumar Mills           | December 31, 1973 | 20.0                        | 10.0          |
| Tubes and Malleables     | December 31, 1973 | 15.0                        | 10.0          |
| William Magor            | December 31, 1973 | 12.0                        | 10.0          |
| <b>Same Dividend</b>     |                   |                             |               |
| Anil Synthetics          | April 30, 1974    | Nil                         | Nil           |
| Bengal National Textiles | December 31, 1973 | 5.0                         | 5.0           |
| Textiles Ltd             | March 31, 1974    | Nil                         | Nil           |
| Cawnpore Textiles        | March 31, 1974    | Nil                         | Nil           |
| Birla Jute & Exports     | March 31, 1974    | Nil                         | Nil           |
| New Rajpur Mills         | March 31, 1974    | Nil                         | Nil           |
| <b>Reduced Dividend</b>  |                   |                             |               |
| Premier Auto Electric    | June 30, 1974     | 10.0                        | 12.0          |
| T. Stanes & Co.          | March 31, 1974    | 12.0                        | 15.0          |
| Deepak Insulated Cable   | March 31, 1974    | 7.0                         | 10.0          |
| Hindoostan Spg. & Wvg.   | March 31, 1974    | 12.0                        | 20.0          |

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Rev. 01

# RECORDS AND STATISTICS

## Input-output economics: a classified bibliography

This bibliography includes books, journals and reports relating to input output economics. The documents have been indexed in classified order and their entries arranged in alphabetical sequence by the names of the authors. In each section, the books precede the journals and reports, again arranged alphabetically.

The citation of the journal has been given in the order of: Title of the journal (abbreviated form); volume number; number of the issue; year of publication and page number/s. The abbreviated forms of the journals, used here, stand for as below:

AER—American Economic Review.

AER/S—American Economic Association Papers and Proceedings.

AHA—Annals Hitotsubashi Academy (Tokyo).

AJS—American Journal of Sociology.

Anvesak—Anvesak.

A V—Artha Vijnana.

CJE—Canadian Journal of Economics and Political Science.

Ec—Economica.

This bibliography has been prepared by Dr. Shrinath Sahai, University Deputy Librarian, Bihar University Library Muzaffarpur

Ec N.S.—Economica, New Series.

E E H—Explorations in Entrepreneurial History.

Em—Econometrica.

EPW—Economic and Political Weekly.

ER—Economic Record.

EW—Economic Weekly.

IEJ—Indian Economic Journal.

IER—Indian Economic Review.

JASA—American Statistical Association Journal.

JFE—Journal of Farm Economics.

JM—Journal of Marketing.

JRS—Journal of Regional Science.

JRSS—Journal of Royal Statistical Society.

Met—Metroeconomica.

PE—Problems of Economics.

PEJ—Pakistan Economic Journal.

QBE Stat.—Quarterly Bulletin of Economics and Statistics.

QJE—Quarterly Journal of Economics.

RE Stat.—Review of Economics and Statistics.

RE Stud.—Review of Economic Studies.

RSE—Review of Social Economy.

Sankhya—Sankhya.

SCB—Survey of Current Business.

SEJ—Southern Economic Journal.

SIW—Studies in Income and Wealth.

SJPE—Scottish Journal of Political Economy.

SPND—Studies Relating To Planning for National Development.

WA—Wirtschaftliches Archiv.

YB—Yorkshire Bulletin of Economic and Social Research.

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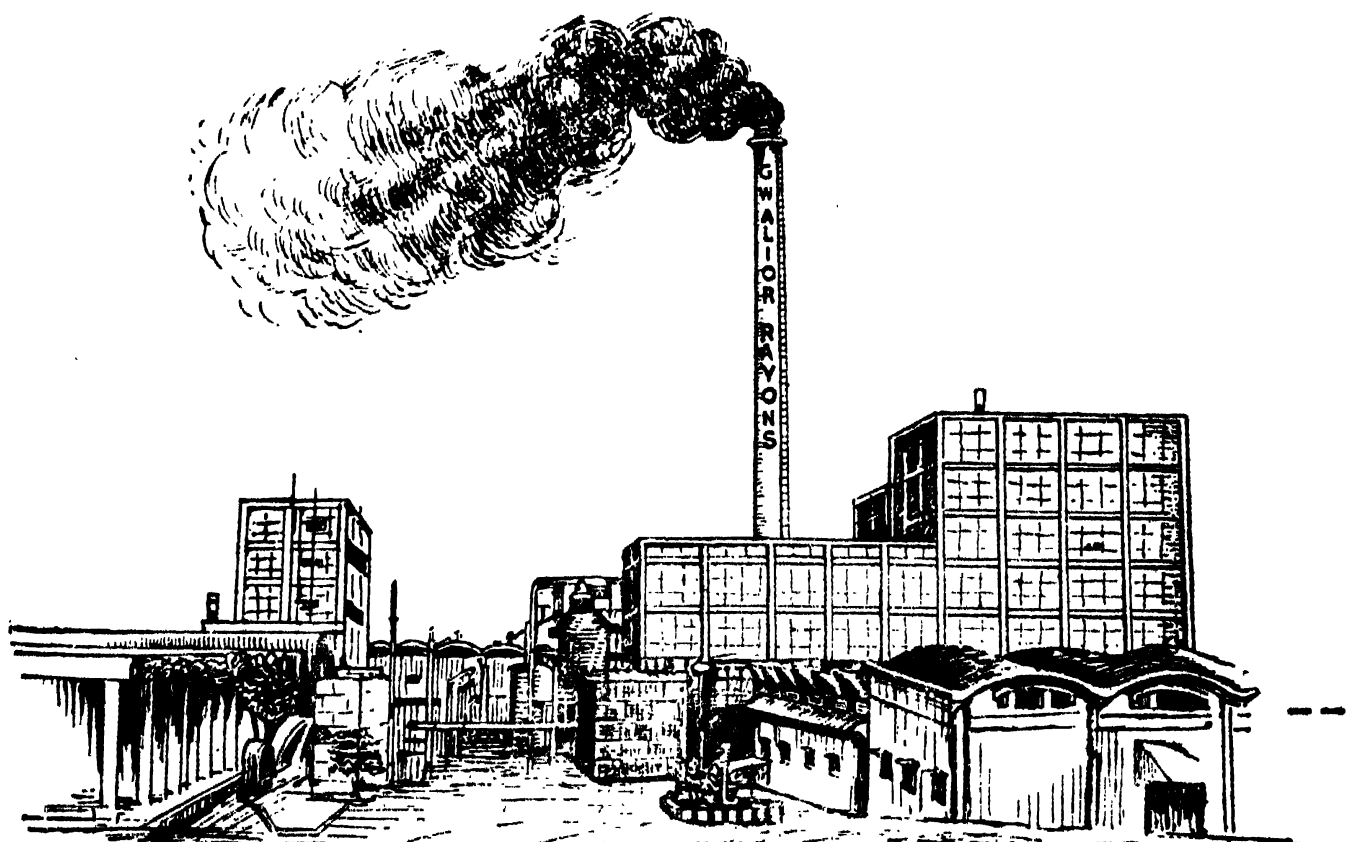
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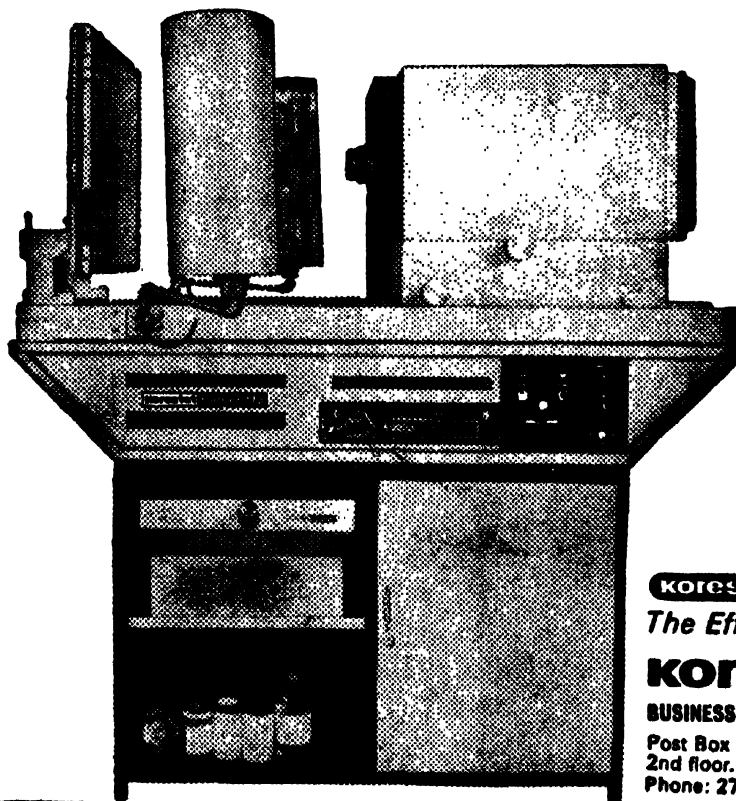
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# As Bombay sees Delhi

LAST WEEK the editor of this journal was in Bombay for a few days. It is almost always useful to try to learn in Bombay how Bombay sees New Delhi. Having met and talked to those who could see good in

the central government when there is some good to be seen, as well as those who would never give it the benefit of the doubt, the basic as well as the general impression which this editor has gained is that there is a broad belief in business circles in that city that the economy is at last beginning to stabilize itself. It is not assumed of course that the price level has ceased or will shortly cease to be a problem and, as regards money supply it is held that the government's ability to restrain it really firmly, especially in terms of fiscal control over its own unproductive or wasteful expenditures, still remains to be confirmed. All the same, there is a strong tendency on the part of even the most circumspect observers of the economic scene to persuade themselves that the risks of hyperinflation are very much less now than what they were around the middle of last year. Consequently there is much expectation that it will soon be seen that the New Year has taken off reasonably well.

There is naturally quite some readiness to give credit to the series of anti-inflationary measures taken by the central government in July last or subsequently. However it is still felt that the government made a mistake in imposing control on dividends on the terms it did although most of the critics of this action are prepared to concede that political expediency did demand of the government some gesture of this kind. It is believed that, having seen the damage the dividend restraint scheme has done to the capital market and to the investor class, the government is now in a position to consider remedial measures. Here, the ordinance giving new tax concessions to investments in units is regarded as an agreeable straw in the wind. To the extent that these concessions do result in securing additional investible resources for the UTI the morale of the capital market is considered likely to benefit both in terms of equity values and the prospects for new issues. The abrupt castration of the investment potential of institutional agencies such as the UTI has clearly been a major cause of the demoralization of the stock exchanges over the latter half of last year. Incidentally, now that the central government has concretely shown its concern for the revival of the capital market, it is generally expected that the dividend restraint scheme would at least be suitably modified at the time of the central budget.

Despite the very real difficulties which the business community has suffered and is still suffering as a direct result of curbs on bank credit enforced by the government as part of its anti-inflationary policy, quite a large number of industrial borrowers seem to have reconciled themselves to the rationing of bank credit as an inescapable necessity in the context of severe inflation. Many of them are also thankful that the credit curbs are coming to be administered on a less sweeping and more selective basis. The prime minister's recent assurance that this is the result of a thoughtful modulation of credit policy is greatly treasured. All the same, there are a few who feel that grave damage could be done to the level of economic activity, not only in the long term but also in the short period, if the very high interest rates charged by the banks on advances are not brought down before the New Year is very much older. Here, even the more conservative expectations seem to be that the Bank Rate should be reduced by at least half a per cent once the busy season is over; the assumption seems to be that the expansion of money supply during the current busy season is likely to be modest enough to permit of some liberalization of dear money policy. It is also pointed out that a lowering of the cost of bank credit would be consistent with trends abroad. Incidentally it is believed that the current structure of interest rates on deposits with banks should be preserved more or less unchanged so that the saving habit may be strengthened and the resource position of the commercial banking system put on a stable and buoyant basis in the long-term context. This could be more easily done if the central government were to withdraw, as it should, the new tax on

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JANUARY 17, 1975

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the earning of banks on their advances.

Recession fears now seem to be receding. Not long ago, when the cotton textile industry particularly was reporting accumulation of stocks and consumer resistance, these fears tended to be rather acute. Now, in the cotton textile trade itself, stocks have started moving and such price declines as there had been are beginning to be made good. In the view of many in Bombay recession of the type seen or feared in the industrialized west or Japan is rather unlikely in our country. This is for two reasons. In the first place there is so much unsatisfied demand for all sorts of goods and services that a fall in prices or even an increase in the availability of most of the consumer goods helps sales to be maintained or to recover promptly after a decline. Secondly, although costs have risen in India as elsewhere in the world, the lack of sufficient competition among sellers has been providing them with profit margins which could absorb or accommodate moderate changes in prices in the downward direction.

It is of course possible that a recession in international trade at large could force a reduction in our exports and thereby lead to some decline in our economy particularly in the export sector. Already the textile industry is encountering adverse winds in its overseas trade but here again the problems could be exaggerated. There is a widely held view that many Indian industries with an export bias are in fact in a strong position to compete in overseas markets under conditions of increasing competition. In this context it is stressed that even a country so aggressive in exports as Japan is being prevented from resorting to tactics such as dumping to any extent because of rising labour costs. Provided Indian industry could stabilize its own manufacturing costs, the buyers' markets abroad might even present it with a comparative advantage against some of its competitors in international trade.

Business circles in Bombay therefore attach considerable importance to prospects of industrial peace and good employer-employee relations in industry. They realize that corporate managements have to share with the trade unions the

primary responsibility for creating a healthy situation in this regard, but they also suggest that government policy is bound to play a very important role. Hitherto, under the prevailing inflationary conditions wage settlements have been negotiated again and again or industrial disputes settled without much thought being given to control of manufacturing costs. This practice must necessarily come to an end now that consumers are becoming more cost-conscious while simultaneously the inflation-bonus is being withdrawn from profit margins.

To the extent that trade union organizations are unable to readjust their thinking to this changed situation, the government must necessarily adopt a positive and firm policy of assisting industry to move towards more viable employer-employee relations or wage-profit or wage-price equations without interruptions to production. Many businessmen in Bombay, therefore, expect that the central government would follow the same realistic policy towards industrial disputes in the private sector as it seems to have adopted in dealing with strikes or other threats to production or services in the public sector.

While recession narrowly conceived may not be a major threat to the Indian economy, the basic problem of recapturing the trend of industrial expansion remains as urgent and real as ever. In fact most business leaders in Bombay believe that, instead of talking of having to avert a recession, both government and industry could more profitably discuss the ever-present issue of sufficient economic development and industrial growth. So far as our country is concerned, this was the challenge it faced yesterday and this is also the challenge which it is facing today and will face tomorrow. Here the greatest importance is being given to the mitigation of power shortage, which is a serious bottleneck to current production in some areas, or recovery of or improvement in the national production and supply of basic industrial materials such as coal, steel and non-ferrous metals.

In this connection it was heart-warming to listen to many responsible industrialists expressing high expectations of some

of the key ministers in the government. Mr T.A. Pai, for instance, seems to be everybody's favourite right now. He has undoubtedly made a great impression by his positive approach to some of our current economic problems. One industrialist, for instance, praised him for his "no-nonsense" attitude towards efficiency in public sector enterprises. Another spoke not only approvingly but also admiringly of a communication he had recently received from Mr Pai's ministry asking him whether he had problems in implementing his industrial licences and, if he had, what they were and how the ministry could assist him in solving them. This industrialist pointed out that this was the first time that this kind of constructive interest had been shown by a ministry in the fate or fortunes of an industrial project or scheme submitted by the private sector.

More generally, there is wide agreement with and support for Mr Pai's policy of doing away with price or distribution controls in all those cases where controls have not been serving the genuine interests of production or proper distribution. Even those industrialists who are conscious of the temporary difficulties which decontrol of prices or distribution could cause to manufacturers in some cases are inclined to welcome this policy in the interests of the national economy and its long-term growth.

While all this is encouraging, even more heartening is the fact that, perhaps for the first time in many long years, Bombay's business world seems disposed to think kindly of a central Finance minister. According to more than one businessman, the country now has in Mr C. Subramaniam a Finance minister who could and probably would look at the demands of his portfolio with a fresh mind. In this context it has been noted as a refreshing change that for once an ordinance has been promulgated for a positive, as distinct from a negative or restrictive, purpose. The reference here is to the additional concessions granted to investment in units. Although the editor of this journal would prefer to remain sceptical, he cannot overlook the fact that many businessmen seem to be more or less convinced that Mr C. Subra-

Subramaniam's forthcoming central budget could make a good and perhaps even dynamic contribution to the revival of economic activity. Although these optimists could not give an answer to the question whether they expect any major concessions in corporate taxation or central excise taxation, they express robust faith in the possibility that the central budget would change the economic climate for the better.

The prime minister's induction of Mr N. Haksar into the Planning Commission as its deputy chairman has been received with much approbation by the business community in Bombay. He is placed in a class with Mr C. Subramaniam and Mr T.A. Pai as one who would go for results. It is expected of course that the three would make it their business to function as a coherent and co-operative team on which the prime minister could rely for much of the advice that might be needed for the working out of an expansionist economic policy at the highest levels of government.

A few however are apprehensive that Mr Haksar's presence in the Planning Commission might have been conceived of by the prime minister as an exercise in creating an ideological counterpoise to Mr Subramaniam and Mr Pai. In their view the prime minister should continue to experiment with a strategy of checks and balances in these matters only at the expense of further slowing down or otherwise frustrating the processes of industrial expansion. Others who claim to have greater knowledge of or more accurate information on the subject confidently suggest that there are no grounds for fearing that Mr Haksar would play a negative role, and that, on the contrary, his association with important members of the cabinet in the task of industrial policy making ought to be highly beneficial to the country. In any case there is unqualified satisfaction that the prime minister seems after all to be endeavouring to put together a team of positive individuals for ministering or helping her to minister to the needs of the economy.

Finally it is necessary to record that the people are anxiously asking whether the prime minister or her government

now commands sufficient political credibility to be able to do big things for the nation's economy. The argument is that Mrs Gandhi should have shown at least five years ago the economic realism for which she now seems to be finding some use. It is contended that she has let time go by and opportunities slip with the result that she might now find it more difficult to do things which would have been easier for her when she was commanding more authority in the country and her administration more respect among the public.

As it is, now the prime minister seems to be in a political situation in which her prime and immediate concern is probably with strengthening her position in her party and in the politics of the country. It is suggested that it is perhaps because of these circumstances that there

is currently so much lively speculation about an early general election. Whether an election held in the coming months would be an advantage from the point of view of national economy is a question on which there is much difference of opinion. Some feel that the time, energy and resources spent on an election to be held within the next few months could come in the way of attention being paid as promptly as possible to the pressing economic needs of the country. Others, however, suggest that, should the election result in imposing on the ruling party the discipline of a substantial opposition in the Lok Sabha so that the new government becomes more responsive to dissent or minority views and feels a greater sense of responsibility for giving a clean and efficient administration, the national economy would be so much better served in the future.

## Gold and its glitter

IN THE last week of December 1974, the price of gold in our country ruled at almost the same level as prevailed in such world markets as London and Zurich. At \$195.5 an ounce, gold reached an all-time peak in London on December 27, 1974. Taking US dollar equivalent to Rs 8.6 (rate quoted in *Newsweek*), it worked out to be Rs 540.6 for 10 grams as against the price ruling in this country between Rs 515 and 520.

It was at once noted as a signal rendering smuggling of gold into our country a losing operation. It may be mentioned here that not long ago the smugglers of gold were able to obtain more than 100 per cent profit in our markets. It is therefore worthwhile analyzing the factors which have brought about this dramatic change in gold prices both in our country and abroad.

Ever since independence the import as well as export of gold was prohibited by our government. In order to have a more stringent control on the ownership and use of gold, the government of India had framed a new gold policy nearly

twelve years ago. It had set three objectives before itself while framing this policy. They were (1) to wean the people away from the use of gold; (2) to reduce the price of gold in this country through a sharp reduction in demand; and (3) to save the much-needed foreign exchange which was being leaked out by smugglers. That the government had not succeeded in any one of these objectives was beside the point. What was of paramount importance was that, as the price of gold in the international markets started moving upwards, there was a sympathetic rise in the price of gold in our country as well though the margin between the domestic and the international prices was steadily narrowed.

The price of gold in the world markets had been closely linked with the supply of the yellow metal, the balance of payments situation in the leading industrialized countries, the world price trends in general, and the fluctuating reserves of the major trading nations of the world. Among the countries which mined the largest quantities of gold each year were South Africa and the USSR. These two countries together accounted for more than 80 per cent of the fresh supplies of gold each year. The reserves

of gold were the largest with the USA followed by West Germany, France, the USSR, Switzerland and Italy. Out of total stock of international reserves of 152.8 billion of Special Drawing Rights (SDRs) at the end of 1973, the share of gold was nearly one-fourth at 35.8 billion SDRs indicating that gold still occupied a no mean position in this regard. As the value of world trade increased, fears were expressed that the absence of liquidity would tend to stifle its growth. A number of countries led by the USA were in favour of treating gold as any other metal and diminishing its role as a reserve currency. There was also another group of countries (France was the leader of this group) which wanted gold to be strengthened as a reserve currency of the world.

The fixed exchange rate system evolved by the International Monetary Fund at Bretton Woods had a successful operation for more than two decades because the USA had guaranteed the supply of gold bullion at \$35 an ounce. While this privilege had been denied to US citizens since 1933, the USA had honoured its commitment to the world monetary system of making available gold at the stipulated price. At the close of the fifties, its gold reserves were valued at \$22 billion (at the ruling price of \$35 an ounce). By 1968, the US stocks of gold had dropped by 50 per cent. The bulk of it was taken up by such gold-hungry countries as France, and traditional buyers such as India and Pakistan (through smugglers). Of course, a part of it was also used for industrial purposes. Alarmed at the fast rate at which its gold reserves were diminishing, the US government evolved a two-tier system. It ceased the sale of gold to private traders outside the USA but agreed to have dealings with central banks. The price of gold was pushed up to \$38 an ounce because the free market price of gold had risen much beyond \$40 an ounce. Under the two-tier system, the USA not only agreed to sell gold to central banks of seven industrialised countries (the USA, the UK, West Germany, Italy, Belgium, the Netherlands and Switzerland) at \$38 an ounce, but also obtained an assurance from these banks that they would refrain from selling or purchasing

gold in the free market. This two-tier system operated till 1971. In the meantime the free market price of gold shot up beyond \$100 an ounce. The US government also raised the price of gold to \$42.22 an ounce though it was out of tune with the ruling market price.

And then came, in the last quarter of 1973, the oil crisis which threatened to reduce the reserves of the industrialized countries drastically. At the same time, inflation raged all over the world and in many countries faith in gold was revived. Even in the USA, where gold bullion had been denied to the citizens since 1933, demand for gold was expressing itself through heavy purchases of coins whose acquisition was not prohibited. The USA imported in 1974 sizeable volume of coins from all over the world to satisfy the domestic demand. Realizing that this tendency was resulting in the outflow

#### Revaluation of Gold Reserves

(In billions of US dollars)

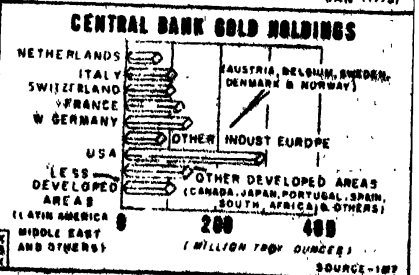
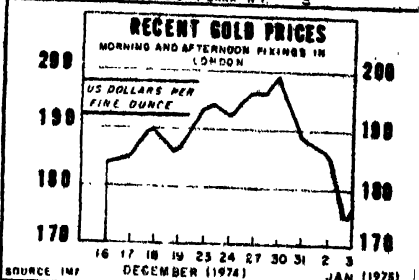
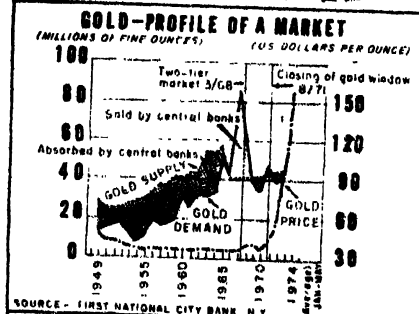
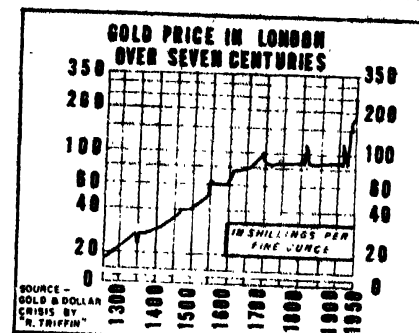
|                            | Gold reserves<br>at \$42.22<br>an ounce | Gold reserves<br>at \$170.4<br>an ounce |
|----------------------------|-----------------------------------------|-----------------------------------------|
| W. Germany                 | 4.9                                     | 19.7                                    |
| France                     | 4.2                                     | 16.9                                    |
| Italy                      | 3.4                                     | 13.8                                    |
| Switzerland                | 3.5                                     | 13.9                                    |
| Netherlands                | 2.3                                     | 9.1                                     |
| Belgium                    | 1.8                                     | 7.1                                     |
| UK                         | 0.9                                     | 3.5                                     |
| Industrial Europe          | 21.3                                    | 85.4                                    |
| US                         | 11.5                                    | 46.2                                    |
| Japan                      | 0.9                                     | 3.5                                     |
| Less developed Areas       | 3.8                                     | 15.0                                    |
| Of which:                  |                                         |                                         |
| Nine Middle-East countries | 1.2                                     | 4.8                                     |
| World                      | 42.4                                    | 169.8                                   |

Note: France revalued its official gold holdings on January 9, 1974. The new price at \$170.4 an ounce was fixed on the basis of the average of the two fixings on the London gold market on January 7.

of dollars, the government of the United States decided to sell two million ounces of gold from its stockpile at a public auction on January 6, 1975. On December 31, 1974 the ban on private ownership of the yellow metal had been withdrawn. Also, in the middle of December, at a meeting between the President of the United States, Mr Gerald R. Ford, and the President of the French Republic, Mr Valéry Giscard d'Estaing, a decision was taken to allow the central banks to revalue their gold stocks at the market price. All these decisions created real as well as specula-

tive demand for gold with the result that as stated above, on December 27, 1974 the price of gold reached an all-time peak at \$195.5 an ounce. In Paris, gold prices pierced the \$200 ceiling.

It was expected that the free sale of gold bullion in the USA would attract many an investor who was afraid of putting his savings in stocks or in bank deposits because of the steadily rising prices and fall in the purchasing power of the dollar. However, all the calculations made by bankers and others proved wrong and the demand for gold in the USA in the first week of January turned out to be only a fraction of what had been anticipated. This had an unfavour-





able impact on the market with the result that prices tumbled to about \$174 an ounce. It was too early to draw any conclusion from this initial coolness of US citizens to gold bullion. The demand for this metal might pick up later on as the impact of such unorthodox writers as Hany Browne (author of best-seller 'You Can Profit from a Monetary Crisis') was known to be considerable. Writers such as Browne had expressed their preference for gold in these words: "The basic protections against a runaway inflation will be—as has always been the case historically—gold, silver and foreign currencies that are not afflicted with similar runaway inflation." Incidentally the recent fluctuations in the price of gold were in themselves a potent reason for not pegging the future of world trade on a reserve of such a volatile kind.

The decision of the American and French presidents to allow the central banks to revalue their gold reserves at current market prices of gold was taken by the oil-exporting countries as a threat to them. When asked to comment on the decision of the two presidents regarding the upvaluation of gold stocks, the Shah of Iran is reported to have said: "If the up-pricing of gold held in stock by various countries led to an erosion of the real purchasing power of oil-exporting nations of revenues accruing from exports of their oil, these countries should take necessary steps aimed at protecting their real purchasing power". The oil-exporting countries felt that the oil-consuming countries' answer to the increase in oil prices was a corresponding raise in gold prices. However, there was no indication that these countries had been increasing their stockpiles of gold. Whatever gold had been imported by some of the oil-producing sheikhdoms in the past few years was for transshipment to other countries and not for inflating their own holdings.

A natural outcome of the revaluation of the gold reserves would be a sharp increase in money supply of the world at a time when inflation had the upper hand in many countries. The IMF had not taken a decision in regard to the revaluation of its gold reserves and

according to Dr. Henry Kissinger, the US Foreign secretary, there was no likelihood of the USA also revaluing its gold reserves at the ruling market prices. How far gold will come to be treated as any other metal depended on the attitude of the leading industrial nations. As stated earlier, the USA was keen to dethrone gold from the pedestal of a reserve currency. The IMF also, six years ago, had started the creation of Special Drawing Rights so that the future growth in world trade was not dependent upon gold reserves and the flow of trade was not hampered by the shortage of liquidity. Now that the world free price of gold had receded after having touched the ceiling of \$200 an ounce, it was safe to assert that for the next few months the price of gold must rule at the current

level. However, the recessionary tendencies witnessed in some industrialised countries might gather momentum, thus depressing the price of gold further.

In our country, the use of gold for the manufacture of jewellery has gone down considerably with the sharp increase in the price of this metal. But old habits die hard. Income-tax raids in many urban centres in recent months had shown that many families were holding on to gold ornaments whose value was beyond the permissible limit. Still a vast section of society in our country finds in gold a hedge against inflation. It will take many more years to persuade the people to stop investing in gold ornaments and take to investment in productive activities.

## Who exploits labour?

THE CHIEF minister of West Bengal said in Calcutta on December 20, 1974 that if the governments, both at the centre and in the states, conducted their administration in close cooperation with the trade unions, it would help to stop the exploitation of labour in the country. He observed that, as the chief minister during the last three years, he had realised the value of such cooperation. He cautioned the working class against the ultra-leftists in the labour movement whose only aim was to grab the control of trade unions. He declared that the government of West Bengal would never allow the exploitation of labour and he claimed that his government had taken more measures for the protection of workers' interest than of the governments in the past 25 years. Mr Ray made these remarks while inaugurating the National Convention of the Hind Mazdoor Sabha.

The chief minister's statements may give an impression that labour in India continues to be exploited. But who exactly is doing this exploitation? Is it the private sector or the public sector or both, and if so, what precisely are the forms in which the exploitation is taking

place? The general feeling in the country is that the central and the state governments in recent years have been pampering labour. The level of wages in the organised industries has been steadily and substantially increased during the last few years. Mr P. K. Nanda, the president of the Association of Indian Engineering Industry, revealed in New Delhi on the December 20, 1974, that in certain cities in India workmen earned as much as Rs 1600 to Rs 2000 per month and he pointed out that "there are very few amongst the working population from all walks of life who can claim to earn that figure". Besides, steps have been taken in other directions to improve the status of the industrial worker by expanding the level of his participation in many areas of decision-making, by establishing shop councils and similar bodies, by introducing incentive schemes linked to productivity; and in various other ways. These measures, however, have not helped to improve industrial relations to any appreciable extent.

The latest official figures indicate that the number of man-days lost on account of strikes and lock-out in India declined from 20.54 million in 1972 to 17.97 million in 1973. Of the latter, the central sector accounted for 2.78 million man-days and the state sector for 15.19 million man-days. Though this may

seem to indicate a slight improvement, the fact is that in 1973 deterioration in industrial relations took place mostly in vital sectors such as coal and other mines, railways, ports and docks. It is also significant that in West Bengal, which is so important to the country from the point of view of industrial production and export, the number of man-days lost on account of strikes and lockouts rose steeply to 6.58 million from 3.96 million in 1972. In fact in 1973, of all states in India, West Bengal accounted for the largest number of man-days lost due to the strikes and lock-outs. The trend is shown in the following official figures.

TABLE I

**Number of Man-days Lost on Account of Strikes and Lock-outs in Major States**

| (Million Man-days)           |       |       |       |
|------------------------------|-------|-------|-------|
| State                        | 1971  | 1972  | 1973* |
| I. Total for all States      | 16.55 | 20.54 | 17.97 |
| Of which:                    |       |       |       |
| 1. Bihar                     | 0.68  | 0.60  | 0.26  |
| 2. Gujarat                   | 0.14  | 0.27  | 0.35  |
| 3. Kerala                    | 3.12  | 3.21  | 1.30  |
| 4. Maharashtra               | 2.05  | 3.53  | 2.39  |
| 5. Tamil Nadu                | 1.71  | 4.27  | 1.46  |
| 6. West Bengal               | 4.29  | 3.96  | 6.58  |
| II. Total (I) to (6)         | 11.99 | 15.84 | 12.34 |
| III. (II) As per cent of (I) | 72.4  | 77.1  | 68.7  |

\*Provisional.

What is even more disturbing is that there has been hardly any substantial improvement in labour productivity in the country as a whole. Mr P. K. Nanda said that "the average productivity in India's engineering industry relative to international standards is indeed low".

It is, of course, true that management has to do a great deal to facilitate an improvement in labour productivity. But this task is made extremely difficult by the indifferent and irresponsible attitude of trade unions towards problems of productivity. The unions have done little to create a sense of pride among workers in their job. On the other hand, the unions are trying deliberately to foster indiscipline among them. To quote Mr Nanda again: "Some of them regard discussions on productivity an anathema. Over the years they have injected into the system of work relationships a great lack of dignity of labour. We have a situation where a peon or a clerk would not carry his own books if they weighed more than two kilos or that a driver would not clean motor cars for it is a cleaner's job, or that a sweeper would not dust a piece of furniture for it is a peon's job. Or that a peon would not serve a glass of water to a thirsty visitor because it is some one else's job. I give these trivial examples only to highlight how deep-rooted the malady has become".

Mr Nanda added that there was "a complete breach between identification of interests of labour and managements and

a lack of realisation that a responsible trade unionism is a necessary prerequisite as much as a responsible and efficient management for building up a sound industrial future". A significant remark he made was about over-employment in the engineering industry. He pointed out that at the national level over-employment in manufacturing unit was far costlier than unemployment. The trend prevails and persists in many other industries also but it seems that there hardly any prospect of corrective action being taken in this regard in the near future.

In her address to the 20th annual session of the Indian National Trade Union Congress in Bombay on December 28, Mrs Gandhi told the workers that mere increase in wages, bonus or allowances would not solve the economic problems of the country and that they would only diminish the value of the rupee and the worker's real earnings. She urged the working class to boost production in all spheres to meet the daily necessities of the common man. But will the trade unions and the political parties that dominate them adopt a truly constructive approach?

## *Eastern Economist 30 Years Ago*

**JAN. 19, 1945**

The capital and investment market of 1944 was dominated more or less entirely by abnormal factors like military events, investment controls and prohibitions, price controls, etc. and as such can hardly furnish much guidance to the more permanent problems of peace and reconstruction. For the latter purpose, we must fall back very largely on our experience of the past and this experience established very clearly that the main deficiencies of the market are three viz., the staggering waste of mistaken or incompetent promotion; high instability of values and consequent deterrence to genuine investors; and finally, the tendency to waves of over-investment and under-investment with their serious reactions on production and employment. It is true that the general, uninstructed public is apt to think of this market more in terms of frauds and mal-practices than any technical deficiencies, but it will be found on deeper reflection that these evils are largely trace-

able to the three defects already stated. It follows therefore that improvement and reform for the future must consist very largely of moderation and elimination of these defects. Ultimately, indeed these defects themselves proceed from the fact that the whole mechanism of the market rests on the foundation of individual judgment and investment enterprise. It is true that expert and highly specialized intermediaries — the brokers — exist to offer guidance to the investing public. But experience proves conclusively that their existence does not modify in any substantial manner the inherent drawbacks and weaknesses of individual judgment which more often than not is apt to be lay and uninstructed judgment. In other words the drawbacks and weaknesses of the investor's judgment constitute the real basic problem of the capital and investment market and the main direction of reform must be to find effective means to protect the investor against himself.

# FROM THE CAPITAL'S CORRIDORS

R. C. Ummat

## The Oil Scene • Essential Commodities Identification

OIL MATTERS have been very much to the fore during the past fortnight. We had the privilege during this period of playing host to two high dignitaries from west Asia—Sheikh Zayed bin Sultan al-Nahyan, the President of the United Arab Emirates, and Sheikh Mohammed bin Mubarak al-Khalifa, the Foreign minister of Bahrain. Another very distinguished visitor last week was Lord Balogh, the British minister of state for Energy.

Along with oil matters, our overall economic relations with the west Asian nations have been receiving great consideration in the highest quarters in the recent past. They came up for discussion not only during the visits of the UAE President and the Bahrain Foreign minister, but have also been receiving great attention otherwise in view of the recent visit of a delegation of Iranian trade and industry representatives and the current visit to west Asia of a seven-member Indian industrial delegation under the leadership of Mr K. K. Birla, the President of the Federation of Indian Chambers of Commerce and Industry. Mr K. D. Malaviya, the union minister for Petroleum and Chemicals, too is currently in Iraq for a meeting of the Indo-Iraq Commission for Economic Co-operation.

### supporting Arab cause

We, of course, have been keen on inculcating close relations with the west Asian nations right since independence; the government of India has been warmly supporting the Arab causes all these years. But this keenness has grown further following the developments on the global oil front during the last two years. As a result of the near-quadrupling of the prices of west Asian crude oil, our balance of payments position has come under very heavy strain. Efforts, therefore, are being made for arranging crude oil supplies from west Asia—nearly 65 per cent of our

requirements of crude oil and petroleum products have to be met by imports, overwhelmingly from this region—in a manner which would not put our economic growth in jeopardy. Besides the assistance available from the International Monetary Fund under the “oil facility” created by it last year, efforts are being made to secure some direct credits from the west Asian oil-rich nations and also for stepping up exports to this region so that adequate supplies of crude oil can be ensured. The development plans of the west Asian countries, which are bound to receive great impetus following billions of dollars flowing into these countries as receipts for crude oil exports, too offer great opportunities for Indo-west Asian collaboration in the economic fields. We are in a position to meet the requirements of west Asian nations not only in respect of such commodities as sugar, basmati rice and various other consumer items but also equipment for industry and building up of infrastructure.

### economic relations

That the west Asian nations too are interested in having close economic relations with our country is evident from the Indo-Iran collaboration in the development of the Kudremukh mines for supplying iron ore to Iran. Bahrain has suggested that Indian expertise could be availed of by it for constructing a \$200 million dry dock there. The UAE has shown interest in technical assistance from here for its industrial growth. Like Iran, it has well evinced interest in making investments in our country in some joint ventures. It is said to be prepared even for joint ventures in third countries with our collaboration. We are already collaborating with Iraq and Iran on a significant scale in the building of infrastructure there. In Iran, we also have an oil exploration concession in partnership with Gulf Petroleum and ENI. Further, an Indo-Iran shipping

venture has been launched recently. Iraq is said to be favourably inclined to have our Oil and Natural Gas Commission for exploring oil in some areas there.

So far as supplies of crude oil are concerned, the UAE, it is understood, will be supplying this year at least two million tonnes. It has agreed to supply “substantial” quantities of crude on a long-term basis at “favourable terms”. Though the details of the supplies on long-term basis are yet to be finalised, the UAE, it is learnt, would be able to make available some soft loans for meeting the cost of these imports.

### offshore exploration

Another significant gesture made by the UAE president during his visit to New Delhi early this month has been the offer of assistance for our offshore exploration programme by providing foreign exchange for the purchase of drilling ships and other equipment. An agreement has as well been signed for setting up an Indo-UAE Commission for Industrial, Scientific and Economic Co-operation.

The Bahrain Foreign minister ruled out any significant crude oil exports to our country because of the declining trend in that country's output. But some ad hoc imports of such petroleum products as fuel oil and diesel oil are not ruled out. The Bahrain Foreign minister too has sought our collaboration in the industrial projects of his country. A delegation will be visiting Bahrain for this purpose shortly.

Assistance for our offshore oil exploration programme has been offered by the British state minister for Energy, Lord Balogh. It, of course, is to be primarily technical—interpretation of the offshore exploration data. Not only Indian oil experts are proposed to be invited to the UK for training under this programme but also some British experts might visit India. Britain, Lord Balogh told newsmen last week, had developed new techniques for offshore oil exploration which have been found highly rewarding in the North Sea ventures.

Underlining the similarity of the

energy problem faced by us and Britain. Lord Balogh as well disclosed that his country would supply to us four coal cutting machinery units worth £ 3.2 million for our coal development programme. Emphasising that next to atomic power, coal currently was the cheapest source of energy, he indicated that "a plan for action" was expected to be drawn up on his return to London in consultation with the British Coal Board for further assisting our coal industry.

So far as the oil supply situation on the domestic front is concerned, the union ministry of Petroleum and Chemicals is understood to be tying up arrangements for ensuring about 22.5 million tonnes product availability. Under the existing arrangements, two million tonnes crude oil is to be imported from the UAE. Saudi Arabia is to supply to the public sector agencies 1.1 million tonnes. Public sector imports from Iran are likely to be of the order of 3.8 million tonnes under a contract already reached. Under an agreement with Iraq, four million tonnes crude oil were to be supplied to us by that country between 1973 and 1975. Thus, about 1.5 million tonnes will be available this year from this source. Indications are that both Iraq and Iran may supply some additional quantities also. The recent changes in the pricing pattern of west Asian crude, however, has made imports by the oil companies costlier by 8 to 13 cents than governmental imports. Thus, efforts are being made to increase governmental imports. Nearly eight million tonnes crude oil is expected to be available this year from indigenous sources. Libya too has offered two million tonnes this year, but imports from this country will have to be swapped with some other sources in view of the high transportation costs involved. The government sources feel confident that the current year's expected demand would be met squarely.

Meanwhile, the striking of oil in the third well also in the Bombay High structure has raised hopes that the interim programme of having nearly a million tonnes output from this oilfield by the middle of next year would now definitely materialise. It also holds out promise that the Bombay High area, when fully developed, may be able to yield as much as 10 million tonnes crude oil annually by the end of the current decade. It is estimated that nearly 100 wells will have to be drilled to develop the area fully. This may cost about Rs 500 crores. At the current prices of crude oil, all this investment, however, can be recovered in a single year of the estimated production of 10 million tonnes crude. The interim programme has been drawn up to make the Bombay High venture more or less self-

financing.

The seismic surveys of the two blocks in the offshore Cambay area in the west and the Bay of Bengal in the east, which have been licensed for exploration to two foreign concerns, too have indicated the possibilities of striking sizeable oil reserves. The data yielded by these surveys are being currently interpreted. Drilling in the two areas is expected to be taken up by the licensee concerns in the near future.

\* \* \*

The task of identifying the essential commodities the uptrend in the prices of which the union government is anxious to contain within reasonable limits is not likely to be completed even by the end of this month, although it was taken up by the department of Civil Supplies nearly two months ago. Not that the task has not been taken up in right earnest; in fact, a good deal of consideration has already been bestowed on the issue. But the delay in completing it has been caused by the fact that the state governments are being fully associated with the job.

The representatives of state governments met at a conference here a few weeks back. The minister for Industry and Civil Supplies, Mr. T.A. Pai, did some loud thinking at this meeting. The New Delhi conference has been followed up by two regional meetings— one at Cochin in the south and the other at Bombay in the west. Another meeting has been arranged for the eastern states at Calcutta on January 23. Consultation with the northern states are also going on. It is proposed to hold another conference at New Delhi after the Calcutta meeting to bring about a consensus among the state governments on the very essential items the availability and prices of which should be kept under close watch.

To make the scheme effective, it is felt that the list of essential commodities will have to be kept to the minimum. Under the Essential Commodities Act of 1955 nearly 60 items are listed for keeping their prices in check. The erstwhile civil supplies organisation at the centre used to look after 20 essential commodities — the other 40 items were being looked after by the various economic ministries concerned. The 20 items looked after by the erstwhile civil supplies organisation included foodgrains, edible oils (including vanaspati), kerosene, diesel oil, paper and stationary, drugs and pharmaceuticals, baby food, textiles, matches, sugar, soap, cycle tyres and tubes, bicycles, electric lamps, soda ash, torch cells, hurricane lanterns, razor blades, footwear, milk and household

utensils. The Mohan Dharma Committee, which last year went into the issue afresh, had suggested that besides foodgrains, the primary concern of the government should be to effectively look after the containment of the prices of such other commodities as pulses, sugar, vanaspati and processed edible oils, milk, common clothing, common footwear, kerosene and other commercial domestic fuels, standard washing materials and school textbooks.

The department of Civil Supplies has suggested that instead of one comprehensive list of essential commodities the prices of which should be controlled or kept at a reasonable level through balancing supplies and production, three lists should be drawn up. In the first list should be included, besides foodgrains— wheat and rice primarily and coarse grains and pulses whenever thought necessary— sugar, vanaspati and other vegetable oils, standard cloth and household fuels like kerosene and soft coke. In respect of these commodities, all efforts are proposed to be made to adjust supplies to demand through raising output and ensuring essential inputs going into their production.

The second list, it is thought, should include cement for public sector projects, low and middle income groups and slum clearance; paper and stationary (including exercise books for students); yarn for weavers; (4) diesel oil for agricultural purposes; essential drugs; washing soap; salt; and matches. The supplies of these commodities are envisaged to be made available at reasonable rates to the vulnerable sections of society on a priority basis. Production has to be at least balanced to the priority demand.

In the third category are to be included baby food, tyres and tubes for cycles, scooters and trucks and common footwear. In the case of these commodities, it is felt that only a very careful watch should be kept on their prices and production trends.

Cooperatives are envisaged to play a great role in the programme. They have to be strengthened for this purpose. It is further felt that enlightened consumer movement will also have to be fostered. With a view to expeditiously raising the production of industrial goods coming in the ambit of this programme, emphasis is proposed to be placed on fuller utilisation of the existing capacities. Where the existing capacities are insufficient, priority is to be accorded to augment capacity as quickly as possible by including the items concerned in the category of core industry whose requirements are provided preferential treatment in respect of finance, raw materials, etc.

# IMF chief looks at world inflation

TO-DAY, I thought it might be appropriate for me to say a few words about the nature and causes of the accelerating inflation from which the world has recently been suffering, and in particular about any inter-relationships that may exist between inflation and recent developments in the exchange rate system.

A certain degree of price inflation has been pervasive throughout the postwar period. During the 1950s its importance seemed on the whole to be declining but after the trend was reversed. During the decade of the sixties national income deflators in the industrial countries rose, on the average, at an annual rate of 3.4 per cent. While the rate of increase fluctuated somewhat there was a gradual tendency for inflation to gather speed towards the end of the decade. For a year or two this tendency was checked by the recession of 1970 and 1971, but in the following years the acceleration was rapid indeed with price increases of over 7 per cent in 1972 and almost 12 per cent in 1973 and 1974.

### Developing nations' plight

Developing countries have always, on the average, had higher rates of inflation than industrial countries, but the same trend is visible among them: their consumer price indices, which had risen at an average rate of 13 per cent during the 1965-72 period, accelerated to 24 per cent in 1973 and 35 per cent in the early months of this year.

During the 1950s and 1960s those who deplored what was then called inflation could console themselves with the thought that at least it was accompanied by an unprecedentedly rapid expansion in production and rise in living standards. If the inflation had to any extent served to promote the exceptional real growth, it might seem to some not too high a price to pay. In the 1970s, however, a very sinister phenomenon, previously familiar to us only from the history of hyper-inflations, has reappeared and recently be-

Text of a speech delivered by H. Johannes Witteveen, Managing Director of the International Monetary Fund, to the American Economic Association and the American Finance Association in San Francisco, California, on December 28, 1974.

come acute, namely, the concurrence of steeply rising prices with declining output and rising unemployment. This phenomenon, sometimes termed "stagflation," presents those responsible for economic policies with an excruciating dilemma.

Looking back, it would seem that the present inflation had begun as the normal expression of an excess-demand situation evoked by policy responses to a preceding recession. The source of many of our current problems may be traced to the slowdown in economic activity which occurred in 1970-71 in most industrialized countries. Real output expanded rather sluggishly during these two years, averaging 2.7 and 3.7 per cent in real terms for the industrialized countries as a group. Government policy subsequently became more expansionary. With hindsight, it is possible to say that the fiscal and monetary policy actions taken were probably too stimulative. For instance, the average rate of monetary expansion in industrialized countries increased from a relatively moderate rate of 7 per cent during 1969-70 to over 12 per cent in 1971 and 1972. This high rate of monetary growth was accompanied by, and to some extent reflected, the pursuit of expansionary fiscal policies in many countries. To this expansion in the monetary aggregates in the various national economies must be added the sharp increase in credit available through the Euro-currency market. The estimated size of the Euro-currency market increased from \$44 billion at the end of 1969 to \$132 billion, or almost 15 per cent of the

world monetary stock, at the end of 1973. This must have contributed in no small measure to world-wide inflationary forces.

As a consequence of the stimulative actions taken during 1971-72, the world economy entered a phase of strong expansion in 1972-73. During these two boom years the rate of real GNP growth averaged 6 per cent, a rate that was not sustainable on a long-term basis. As bottlenecks and capacity constraints were reached, excess demand pressures built up quickly and contributed to the price increases to which we have referred.

Though the current inflation began and gathered strength under the stimulus of demand pressure, there seems little doubt that in its latter stages it has been aggravated and accelerated by cost-push factors, some of which, in turn, have arisen from particular features of the demand inflation. It is these cost-push factors which in turn have been responsible for the coincidence of inflation and declining output.

### Foodstuffs affected

Thus, the boom of 1972 and 1973 had a particularly strong effect in raising prices of foodstuffs and raw materials. Long-run factors such as rising population and rising per capita income may have been tending to expand demand for agricultural products faster than the trend growth of supply. However that may be, supplies have recently been curtailed by a series of bad harvests. Consequently, agricultural stockpiles were reduced. Their disappearance removed a factor which had served to mitigate the price raising effects of past periods of industrial expansion. The elimination of the stockpiles served as a signal to speculators that future shortages would find expression in price changes rather than in sales from existing stocks.

The rise in the price of foodstuffs and most other primary products, though of unusual magnitude, must itself be regard-

ed as an aspect of demand-induced inflation. The same cannot be said of the sharp increase in crude oil prices at the end of 1973 which added another powerful impetus to world inflation. Petroleum is the single most important commodity in world trade and its widespread use as an industrial input, as well as a consumer good, affects wholesale and consumer price indices directly. It has been estimated that the direct impact of the crude oil price increase added some 2 to 3 per cent to world prices.

## effect on finished products

The soaring flight of primary product prices arising from these causes would appear to have stimulated an increase in the prices of finished products greater than could be accounted for by its direct effect on costs. It has done so by evoking increases in other cost elements to a greater extent than could be justified by demand conditions, thus magnifying and accelerating the inflation.

Thus, labour has generally been unwilling to accept the drastic reduction in real income growth—or even absolute decline in real income—which the rise in primary product prices would tend, under market principles, to require of it. And this reluctance has understandably been enhanced by the increases in paper profits which the inflation itself, in conjunction with conventional principles of cost accounting based on historic costs, has tended to bring about.

Another important element in this connection is indexation. Many wages and social benefit payments had been indexed during the late sixties and early seventies when we experienced an inflation that was relatively mild compared to our present situation. Often, these contracts contained threshold clauses, providing for increased wages or benefits only after a certain price index had increased by a stipulated percentage. The accelerating price inflation in 1973 triggered many of these clauses and consequently costs to business enterprises and governmental expenditures for social benefit payments increased. At a late stage in inflation, when price expectations, enhanced by an uncertainty factor, are tending to exceed actual inflation indexation may play a part, in conjunction with demand management, in bringing the process to an end. At an earlier stage, however, its influence almost certainly runs the other way.

As regards profit margins, two oppos-

ing forces have probably been at work. Insofar as firms have based their pricing policies on historic cost or insofar as price controls, where they exist, have been administered on this basis, price increases may have been temporarily mitigated or held back. There has, however, been a very natural, and indeed desirable, tendency for firms to shift their pricing policies to a replacement cost basis even where national authorities have been reluctant to reckon taxable profits in this way. On the other hand, the widely practised system of percentage markups as such is obviously one which tends to multiply the price raising effects of any increases in costs of materials or labour, whether these increases are a reflection of demand-pull or cost-push factors. Where the total amount available for distribution between capital and labour in industry has been diminished by the rise in primary product prices, the combination of linking wages to the cost of living and the application of percentage price margins by employers sets up a perfect mechanism for the production of a wage-price spiral.

The system of direct taxation in industrial countries, both on account of its progressivity and of its adherence, in some countries, to historic cost-accounting principles, tends, of course, to act as a drag on demand inflation. There have been indications, however, that it may be tending to promote cost-push inflation insofar as unions in their wage bargaining and employers in their pricing practices try to maintain a given net-of-tax income. Somewhat ironically, with a progressive tax system the effect of such further inflation will be still further to reduce real after tax incomes.

## accelerating pace

As inflation has persisted at an accelerating pace, people have become increasingly more conscious of it, increasingly inclined to expect its continuance, and increasingly desirous of protecting themselves against it. This may even go to the point where economic units try not only to recuperate past losses, but also make an attempt to protect their position against the expected future erosion of their economic position due to inflation by anticipatory price or wage increases. This has naturally given a further impetus to inflation and, together with the factors already mentioned, has contributed to a shortening of the time lags between the various stages of inflation. Thus, we have shorter union con-

tracts, indexation of wage and social benefit payments, flexible interest rate clauses, changes in accounting practices, and other arrangements under which price increases are passed on more rapidly than would otherwise be possible and perhaps even in a magnified form.

All these factors, taken in conjunction, not only contribute to the inflationary spiral but, by accelerating the interaction of price on price, make the system increasingly sensitive to exogenous inflationary shocks. In this context it is easier to understand the magnified repercussions of the increase in oil prices which I referred to earlier.

## warning note

I do not wish to embark, today, on the theme of what requires to be done to counter inflationary pressures, or to remedy the stagflation from which we suffer today. I would only sound one warning note, derived from a good deal of Fund experience. Partial measures, designed to hold down the price of particular goods and services, such as those which enter prominently into cost of living indices or those produced by the public sector, whether they operate by way of price control or of subsidy, are unlikely to be successful in reducing inflation as a whole and may often stimulate demand. In addition, they usually create scarcities or divert resources from their most appropriate uses. Only comprehensive measures whether in the field of demand management, or of incomes policy, or both, will serve.

Thus far, the causes of inflation which I have analyzed have been those which could operate in a closed economy. I should now like to focus on an aspect of the arrangements governing the transmittal of inflationary or deflationary impulses between countries.

It has not escaped notice that the period—from 1973 on—in which inflation has begun to get out of hand in the world is also the period during which floating exchange rates have been the rule rather than the exception among industrial countries. The question is whether this is a chance combination of circumstances or whether there is an interrelationship between the two phenomena and, if so, what it is.

First, a few words on the role of inflation in the abandonment of the par value system.

As we have seen, a moderate degree of

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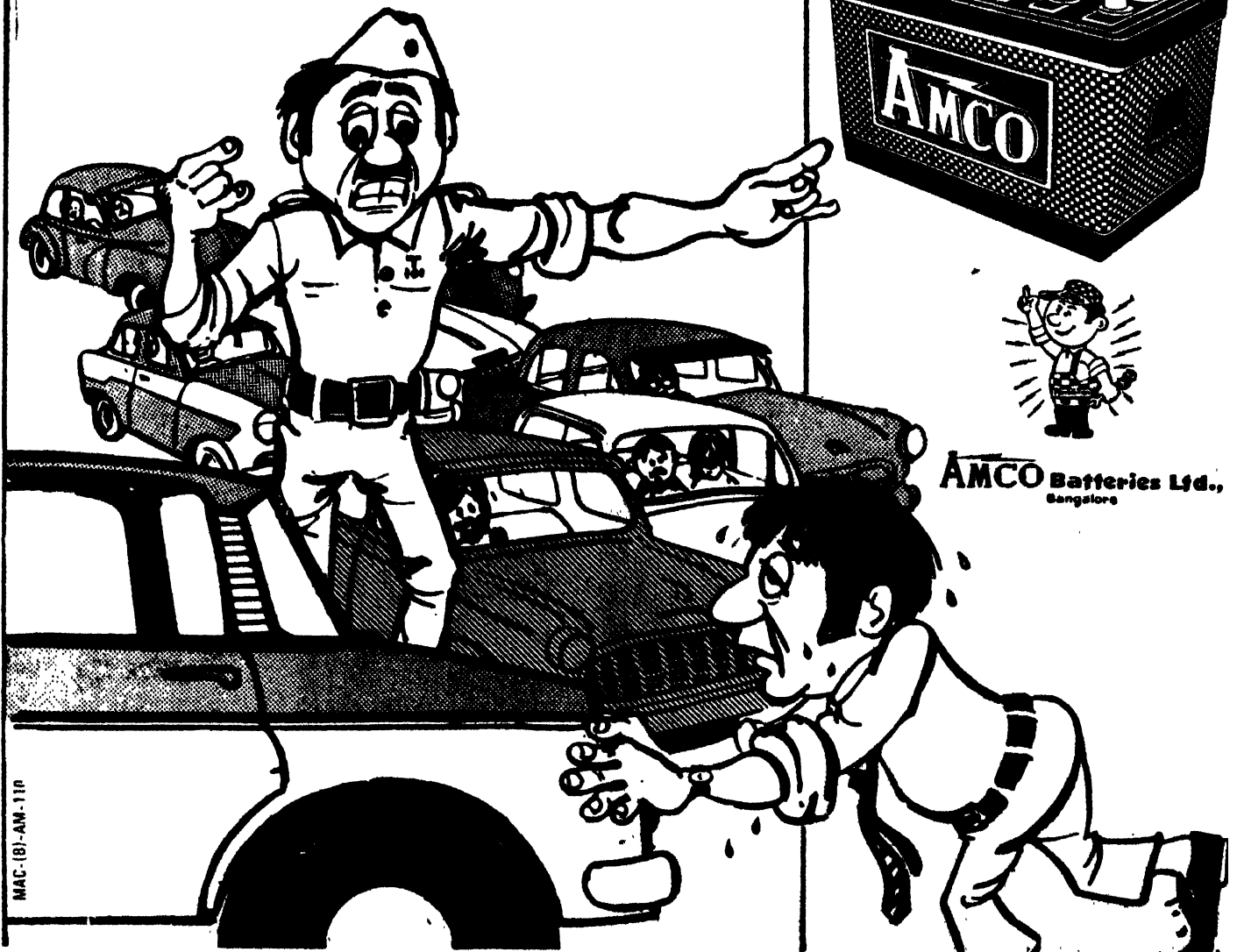
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inflation prevailed throughout the post-war period, becoming less moderate in the late 1960s. Moreover, the character of the inflation changed somewhat, cost-push elements becoming more prominent. Whereas earlier inflation had been fueled by reconstruction needs and sometimes by the incapacity of governments to finance their expenditures without recourse to the banking system, later the prime motive was to preserve a high level of employment which, given more aggressive behavior of labour, could only be done at rising price levels.

Stable exchange rates can only be combined with desired levels of employment when there is a consistent development of price levels in different countries. Now, abstractly, the mere fact that prices are rising everywhere does not prevent relative national price levels from remaining constant or moving in a direction consistent with international equilibrium. In practice, however, the higher the degree of inflation, the larger are likely to be the divergences in inflation rates. Moreover, there is no reason why such divergences should occur in the direction required by structural changes affecting the balance of payments.

### cost-push element

The growing importance of the cost-push element in inflation probably tended to accentuate these divergences and to necessitate exchange rate adjustments. While profits were high and unions unaggressive, countries in payments difficulty could get back into balance by slowing down the expansion of demand without undue effects on employment; when cost-push became the driving element in inflation, this ceased to be true and devaluation became the only solution.

Of course, exchange rate adjustment could take place under the par value system. During the sixties such adjustments were often unduly delayed, but later, when they became more frequent, the volume of anticipatory capital movements grew too great to be contained within the structure of this system, and resort to generalized floating became inevitable.

A question which is perhaps more controversial than that of the role of inflation in compelling a transition to flexible exchange rates is that of the possible role of the flexible exchange rate system in promoting inflation.

There are various reasons, much dis-

cussed in the literature, for thinking that exchange flexibility and in particular freedom from the obligation to adhere to any particular exchange rate should make it easier for a country to cope with inflationary pressures and to preserve internal financial stability.

In the first place the option of allowing one's currency to appreciate should enable the monetary authorities of a country to buffer it against the impact of demand pressures from abroad whether these arise from lax demand policies practised in other countries or from structural shifts in foreign trade, though in the latter case adjustments will still be required as among particular industries. It should also enable them, though at some cost in terms of exchange stability, to protect the monetary system against an influx of reserves that would otherwise be difficult to offset. The degree of insulation against external shocks that is achieved in this way is reduced by a number of factors.

Thus, the more inflationary countries may for a time attract a sufficient volume of investable funds to prevent their exchange rates from falling, and those of the less inflationary countries from rising. Again, the low level of foreign trade elasticities in the short run means that when exchange rates do move the buffer against external demand variations will be fully effective only after a time lag. Nevertheless, the monetary insulation will operate immediately, and I think that countries like Germany or the Netherlands would feel that the regime of floating rates had served to protect them, at least in some measure, against imported inflation. At the same time, it has to be borne in mind that insofar as this mechanism tends to prevent the spread of inflation it also tends to concentrate and magnify it in the countries in which it originates.

### an advantage

A second, though related, advantage of the flexible rate system from the standpoint of stabilization policy is that the instruments of demand management, particularly monetary policy, operate much more powerfully on the domestic economy when they are not subject to the leakages that affect an open economy under fixed exchange rates. Monetary contraction need no longer be frustrated by an influx of reserves and money from abroad and will, by promoting exchange appreciation, exercise a deflationary effect on the current account balance of payments. Here again, some of the

deflationary effect will be achieved at the expense of other countries, but these countries have both the incentive and the possibility to follow suit with effective stabilization policies of their own.

Balancing these arguments in favour of flexible rates, there are two arguments frequently advanced against flexible rates from the standpoint of stabilization policy. There is, first, the contention that governments, especially democratic ones, are naturally prone to pursue expansionary policies and that exchange flexibility removes the inhibitions formerly imposed upon this tendency by fear of running out of reserves and of incurring the political odium of devaluation. There is some force in this contention, though the fact that under floating rates the effects of overexpansion must be kept at home with immediate repercussions on the domestic cost of living should provide, to some extent, a substitute discipline, if possibly a less effective one. I must add that there is not much evidence that the transition to floating rates in 1973 has led to a perceptible loosening in demand management. The expansion in money stocks which laid the foundation for the boom took place from 1970 to 1972 which, despite an interlude of floating in 1971, was on the whole a period of fixed rates.

### familiar argument

Another familiar argument against floating rates which seems somewhat dubious in practice is the contention that spontaneous inflation pressures within a country which would, under fixed rates, have been dispersed harmlessly over a wide area where they could be more easily dealt with might, under floating rates, be "boxed in," as it were, in the country of origin in a way that makes them more difficult to control. This might have some validity under a system of free floating when countries were forbidden to intervene to support the exchange rate, but under the system of managed floating which actually prevails countries are free to intervene in support of the rate and when domestic inflationary pressures are strong are very likely in practice to do so.

There are, however, some other reasons for suspecting that floating rates may on balance have contributed to the average rate of inflation among countries in the last year or two. Most of these operate from the side of costs rather than of demand. For example, there is the question of the risks attached to international transactions and to the produc-

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tion of internationally traded goods. We have seen some rather large fluctuations in exchange rates since generalized floating began, particularly as between the US dollar on the one hand and the currencies participating in the EEC 'snake' on the other, where the amount of stabilizing official intervention has been rather small. Thus, the deutsche mark appreciated some 30 per cent vis-a-vis the dollar from February 14, 1973 to July 1973, then depreciated by 22 per cent by a date in January 1974. Five months later, by May of this year, the mark had risen again by 20 per cent to a new peak only to fall 10 per cent to a new trough in September. Since then it has risen again by nearly 10 per cent. It can be argued that these fluctuations have shown a declining tendency. Nevertheless, they have been large, and must have added to the risks of doing business not only as between the two countries in question but among all those countries whose currencies are tied either to the dollar or to the DM, or even those which try to steer a middle course between the two.

### high spreads

While one can hedge in forward markets against some of these risks, these markets are not well developed for all relevant maturity periods, and the spreads charged on forward contracts are relatively high. Besides, production of international trade goods or investment in such production involve many types of exchange risks which cannot be hedged by short-term forward contracts. Of course, devaluation and revaluation risks would exist under a par value system also; moreover, in some cases the adjustment of exchange rates facilitated by a flexible system will serve to offset other risks, such as the risk of divergent developments in domestic currency costs. But the sort of short-to-medium term fluctuations in rates, to which I have drawn attention have characterized the flexible rate system up to now, and it would be strange if required profit margins had not been widened to cover such risks.

These fluctuations probably promote inflation in yet another way. Exchange rates influence the distribution of demand between domestic and foreign products, and rate fluctuations will involve demand shifts which will later in some measure be reversed. These demand shifts may well exercise a ratchet effect on inflation. Given the downward rigidi-

ties in wages and prices characteristic of modern industrialized economies, shifts in purchase patterns brought about by the exchange rate changes, or even the expectation of such shifts, may tend to raise prices in the countries of depreciating currency without effecting a corresponding price reduction in the countries of appreciating currency. It might be argued, in view of the slowness with which demand patterns respond to exchange rate changes, that this ratchet effect would not be very important for fluctuations as short term as those to which I have just referred. However, there is evidence that prices are adjusted to meet changes in competitors' prices evoked by exchange rate movements in advance of the expected shifts in demand, and that these anticipatory price adjustments are more marked in the upward direction.

This brief review of the interrelationship of inflation and exchange rate flexibility seems to yield some tentative conclusions. In the first place, the influence of inflation on the exchange rate regime has been more considerable than the influences operating in the opposite direction. As regards the bearing of the exchange regime on inflation, I would say that floating makes it easier for countries with relatively strong anti-inflation policies to achieve the desired results; but that the price for this is more inflation in countries already inflating more strongly. Thus, floating which is partly caused by differences in rates of inflation in its turn increases these differentials. With respect to the average rate of inflation in all countries taken together, floating exchange rates may have been a slight additional fillip

to inflation, particularly through their effect on the risk element.

An important distinction has to be drawn between the role of the floating technique in permitting prompt adjustment to underlying trends or even to cyclical reactions in the balance of payment and its role in permitting shorter term fluctuations. The first aspect is almost entirely beneficial from the standpoint of inflation control, as indeed from the aspect of adjustment in general. The second aspect is the one that may cause trouble both for stabilization policy and, indeed, for adjustment also.

In a decision adopted last June the Executive Directors of the Fund have agreed on a set of guidelines or principle which its members will attempt to follow to avoid disruptive exchange rate movements under floating. The course of action which the guidelines encourage is that of smoothing out day-to-day and week-to-week fluctuations in rates resisting over-rapid movements of rate in any particular direction, and resisting undue deviations in rates from their medium-term norm, if such can be discerned. This would tend to eliminate the additional risk resulting from excessive short-run fluctuation in exchange rates.

In the further development and application of these guidelines I therefore see a possible remedy for any net tendency that may exist for the floating rate system to promote inflation. This argues strongly for the development of the international consultation and cooperation which could make these guidelines effective.

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# Trends in Indo-UK

V. K. Korneel

# economic cooperation

DURING THE last three years, Indo-UK economic relations had exhibited robust signs of improvement in sharp contrast to the unhappy trends in the fifties and the sixties.

Till 1970-71, India's exports to the UK had continually declined. And this also applied to its imports from the UK. The share of the UK in India's exports declined from 28.1 per cent in 1955-56 to 11.1 per cent in 1970-71; during the same period, the share of imports fell from 26.6 per cent to 7.8 per cent.

The year 1971-72 marked the beginning of the upward trend in the development of the trade relations between the two countries. India's imports jumped from Rs 126.8 crores in 1970-71 to Rs 216.9 crores in 1971-72 recording a rise of more than 70 per cent in one year. Consequently, there was a general increase in the total turnover of Indo-British trade. In the subsequent years also, the rising curve of trade kept moving upwards.

## Spurt in exports

The year 1973-74 witnessed a spurt in exports to the UK at Rs 258.3 crores against Rs 172.5 crores in 1972-73. Imports also rose from Rs 225.5 crores in 1972-73 to Rs 245.1 crores in 1973-74. This sharp upturn in turnover came about despite such negative factors as the UK's entry into the European Economic Community, increased competition in the UK market for traditional Indian exports and the general fall in demand in the UK due to the recessionary tendencies.

The upward trend in the development of Indo-UK trade continued in 1974-75 as well. According to British statistics, India's exports to the UK during the first seven months of 1974-75 was valued at £116.2 million (Rs 220 crores) against £72.7 million (Rs 137 crores) during the corresponding period in the preceding year. It was expected that during 1974-75 the value of India's exports to the UK would be more than Rs 410 crores.

Some important steps for attaining

this target had already been undertaken. One of them was the organisation of India's trade exhibition which was sponsored by the Trade Development Authority, and which was held in London in October, 1974. This exhibition had rendered substantial help to Indian businessmen in securing large orders for the supply of engineering goods to the UK.

Britain's exports to India were also developing progressively.

## Imports from Britain

During 1973-74 the sale of British goods to India amounted to Rs 245 crores against Rs 225 crores in 1972-73. In 1974-75 it was expected that, taking into account the latest developments in India's imports from the UK, the total amount of imports would cross the Rs 300 crore mark.

The UK was expected to supply to India a large quantity of coal-mining equipment which was urgently needed to raise annual production to 135 million tonnes of coal in 1978-79.

During September-November, 1974, three delegations of British manufacturers of coal-mining equipment had paid visits to India and, as a result of their discussions at the ministerial level, a contract for the supply of mining equipment valued at Rs 6.4 crores had been signed.

The conclusion of this deal in which, it was understood, the prices paid by India were more than 20 per cent above the international prices for similar equipment, was to a great degree facilitated by the extension of a British credit.

Generally speaking, loans and credits from the UK had greatly helped in developing British's exports to India during the last 15 years. Even the import policy for 1974-75 had a special clause which provided that 25-30 per cent of the total amount of import licences issued to small-scale units exporting less than 10 per cent of their output was to be under the UK credit.

Also, during the first seven months of

the current financial year, the UK had extended to India loans and credits valued at \$ 70 million on terms which were more favourable than all the other foreign loans.

The total value of the UK's financial aid to India during 1958-1973 was £ 589 million (Rs 1063 crores); it constituted 10 per cent of the total aid received by India till the end of 1973-74.

TABLE I  
Britain's Financial Aid to India  
(As on 31-3-74)

(Rs crores at post-devaluation rate of exchange)

|                                    | Amount authorised | Amount utilised | % (3/4) |
|------------------------------------|-------------------|-----------------|---------|
| (1)                                | (2)               | (3)             | (4)     |
| Total foreign aid to India         | 11767             | 9966            | 81.0    |
| UK aid                             | 1177              | 1087            | 92.4    |
| UK aid as % of the total aid (2/1) | 10.0              | 10.9            | —       |

Source: "Explanatory Memorandum on the Budget of the Central Government for 1974-75" New Delhi, 1974.

Nearly one-third of the total value of the UK's loans and credits to India was in the form of project aid which helped to finance such projects as Durgapur Steel Plant, Heavy Electricals (Bhopal), Oil India and Hindustan Cable.

Out of the remaining 67 per cent of the total UK aid to India 10 per cent was in the form of debt relief. The UK had been one of the first countries to provide debt relief to India and 57 per cent of it was in the form of non-project aid.

A substantial part of this non-project aid amounting to £ 32.5 million (Rs 61.3 crores) came under the Kipping loan scheme which had been designed to

<sup>1</sup>Economic Times, October 14, 1974

## POINTS OF VIEW

finance the purchase of components, spare parts and raw materials by British subsidiaries and branches in India as well as by Indian companies using British equipment and components. These loans had to a great extent assisted in the expansion of the activities of British companies operating in India.

The total value of British private capital investments in India was, according to British statistics, more than £290 million (this did not include investments in the petroleum industry).

At present British companies comprised the largest number of subsidiaries and branches among all foreign com-

panies in India. At the beginning of 1972-73 British companies had 148 subsidiaries in India (68.2 per cent of the total number of subsidiaries of foreign companies in India) with paid-up capital of Rs 179.77 crores (65.9 per cent of the total) and with assets of Rs 637.58 crores (59.1 per cent of the total).

British companies also led in the number of subsidiaries with 100 per cent foreign equity participation. There were 65 such subsidiaries at the beginning of 1972-73 (70.6 per cent of the total) with paid up capital of Rs 109.45 crores (48.0 per cent of the total) and with assets of Rs 718.10 crores (45.6 per cent

of the total for all subsidiaries of foreign companies in India with 100 per cent equity participation).\*

British companies, as was shown in recent review of the Reserve Bank of India, had the highest profit-investment ratio among all foreign companies in India which made it possible for them to rem during the period 1964-65—1969-70 more than Rs 100 crores by way of dividends.

Total annual earning on British investments in India, according to British statistics, increased during 1967-1972 from £ 18 million (Rs 34 crores) to £26 million

\* "Directory of Foreign Collaborations in India", Delhi, 1974.

TABLE II

### Indo-UK Trade : 1951-52—1973-74

(at post-devaluation rates)

|                     | 1951-52 | 1955-56 | 1960-61 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 | 1970-71 | 1971-72 | 1972-73 | 1973-74 |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| I. Exports          |         |         |         |         |         |         |         |         |         |         |         |         |
| Rs crores           | 296.1   | 259.1   | 269.0   | 228.2   | 202.4   | 229.0   | 201.5   | 165.1   | 174.4   | 168.7   | 172.5   | 258.3   |
| %                   |         |         |         |         |         |         |         |         |         |         |         |         |
| to total Indian     |         |         |         |         |         |         |         |         |         |         |         |         |
| Exports             | 26.8    | 28.1    | 26.9    | 18.1    | 17.5    | 19.1    | 14.8    | 11.7    | 11.1    | 10.5    | 8.8     | 10.7    |
| II. Imports         |         |         |         |         |         |         |         |         |         |         |         |         |
| Rs crores           | 255.8   | 272.2   | 342.2   | 235.0   | 165.5   | 162.7   | 127.5   | 102.6   | 126.8   | 216.9   | 225.5   | 245.1   |
| %                   |         |         |         |         |         |         |         |         |         |         |         |         |
| to total Indian     |         |         |         |         |         |         |         |         |         |         |         |         |
| Imports             | 18.5    | 26.6    | 19.3    | 10.7    | 8.0     | 8.1     | 6.7     | 6.5     | 7.8     | 12.0    | 12.7    | 9.4     |
| III. Balance (I—II) |         |         |         |         |         |         |         |         |         |         |         |         |
| Rs crores           | 40.3    | -13.1   | -73.2   | 6.8     | 36.9    | 66.3    | 74.0    | 62.5    | 47.6    | -48.2   | -53.0   | 13.2    |

Source : "Commerce" Annual Number, 1971.

"Eastern Economist" Annual Number, 1974.

"Monthly Abstract of Statistics" October, 1974.

TABLE III

### Profitability of UK Companies in India

|                                         | 1964-65 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 |
|-----------------------------------------|---------|---------|---------|---------|---------|---------|
| I. Dividend remittances                 | 203.0   | 194.2   | 225.6   | 264.7   | 265.2   | 299.4   |
| i. All foreign companies                |         |         |         |         |         |         |
| Rs mln.                                 |         |         |         |         |         |         |
| ii. UK companies                        | 138.3   | 140.5   | 166.5   | 186.7   | 180.0   | 189.1   |
| Rs mln.                                 |         |         |         |         |         |         |
| II. Rate of return                      |         |         |         |         |         |         |
| i. Subsidiaries all foreign companies % | 6.6     | 5.5     | 6.2     | 6.8     | 6.2     | 6.6     |
| ii. Subsidiaries of UK companies %      | 6.6     | 6.0     | 7.1     | 7.6     | 6.9     | 6.9     |

Source: "RBI Bulletin" June 1974.

## POINTS OF VIEW

Rs 49 crores) and their cumulative total for this period reached £ 137 million (Rs 258 crores), while new investments in the same period had not exceeded £ 53 million (Rs 100 crores).

British companies also headed the list of all collaboration agreements approved by the government of India during 1957-1974. The total number of collaborations between Indian and British com-

panies had exceeded 1100 during this period. This constituted just 25 per cent of the total number of foreign collaborations approved by the government of India. These collaborations, a majority of which were purely technical, also yielded sizeable profits to British companies.

Thus, from 1964-65 to 1969-70, the total amount of royalty remittances and

remittances of technical fees from India to the UK was more than Rs 20.6 crores.

In the light of the above developments, it was safe to predict that in the next few years the upward trend in the development of Indo-UK economic relations would be maintained. New loans and credits would lead to the development of increased trade and more flexible policy towards the import of foreign capital and technical know-how.

TABLE IV  
India's Place in UK Overseas Direct Investments and Earnings

|                                                            | ( £ million ) |       |       |       |       |       |         |
|------------------------------------------------------------|---------------|-------|-------|-------|-------|-------|---------|
|                                                            | 1967          | 1968  | 1969  | 1970  | 1971  | 1972  | 1967-72 |
| 1                                                          | 2             | 3     | 4     | 5     | 6     | 7     | 8       |
| I. Investments                                             |               |       |       |       |       |       |         |
| i. Total UK overseas direct investments (Net)              | 281           | 410   | 549   | 546   | 675   | 731   | 3192    |
| 2. UK direct investments in India (Net)                    | 11            | 9     | 9     | 11    | 9     | 4     | 53      |
| 3. (2/1) %                                                 | 3.9           | 2.2   | 1.6   | 2.0   | 1.3   | 0.5   | 1.7     |
| II. Earnings                                               |               |       |       |       |       |       |         |
| i. Total UK overseas earnings                              | 438           | 568   | 650   | 710   | 717   | 915   | 3998    |
| 2. UK earnings in India                                    | 18            | 20    | 21    | 28    | 24    | 26    | 137     |
| 3. (2/1) %                                                 | 4.1           | 3.5   | 3.2   | 3.9   | 3.3   | 3.9   | 3.4     |
| III. Earnings investment ratio (all UK investments) %      | 155.8         | 138.5 | 118.4 | 130.0 | 106.2 | 125.2 | 125.2   |
| IV. Earnings investments ratio (UK investments in India) % | 163.6         | 222.2 | 233.3 | 254.5 | 266.7 | 650.0 | 258.5   |

Source: "Trade and Industry" June 13, 1974.

TABLE V  
Royalty and Technical Fees Remittances from India

(Total 1964-65-1969-70) Rs million

| Country                                | Royalty remittances | Remittances of technical fees | Total remittances (2+3) |
|----------------------------------------|---------------------|-------------------------------|-------------------------|
| 1                                      | 2                   | 3                             | 4                       |
| I. All countries                       |                     |                               |                         |
| i. Subsidiaries and minority companies | 214.0               | 251.4                         | 465.4                   |
| 2. Pure technical collaboration        | 71.4                | 32.5                          | 103.9                   |
| 3. Total                               | 285.4               | 283.9                         | 569.3                   |
| II. UK                                 |                     |                               |                         |
| i. Subsidiaries and minority companies | 83.3                | 98.4                          | 181.7                   |
| 2. Pure technical collaboration        | 18.5                | 6.6                           | 25.1                    |
| 3. Total                               | 101.8               | 105.0                         | 206.8                   |

Source: "Survey of Foreign Financial and Technical Collaboration in Indian Industry-1964-1970" "RBI Bulletin", June 1974.

# The oil "miracle" in the Gulf states—I

London

Josselyn Hennessy

## I Oman

Head of State and Premier H. M.  
Sultan Qaboos Bin Said  
Exchange Rate 0.81 Riyals = £1  
(£ = U.S. \$ 2.33)

RECENT INCREASES in oil revenues have transformed Oman, which until four years ago was living in the mediaeval era. Revenues from oil totalled \$196 million in 1973 and earnings could reach \$785 million this year.

The Sultan's aim is to use oil revenues to build an extensive network of economic and social infrastructure and to diversify the economy by developing agriculture, fishing and minerals in preparation for the day when Oman oil will be depleted. To this end, development advances

with annual production running between 14-15 million metric tons. It was recently announced, however, that this would be raised to about 18.9 million metric tons by early 1975, partly as a result of the discovery last year of the Ghaka field by Petroleum Development (Oman) Limited. By September, 1976, production could reach as much as 21.3 million metric tons annually. In July the government signed an agreement giving the state a 60 per cent interest in the country's oil production.

The agricultural potential of Oman is considerable. A vast area of cultivable land is available, provided water can be brought to it, and the Government has been carrying out a comprehensive survey of water resources.

In the meantime, agricultural policy is being concentrated on improving the

the richest fishing grounds in the world. Methods are still relatively unsophisticated but the government has commissioned a survey on fishery development and marketing prospects for a large processing factory.

## mineral deposits

Mineral deposits are known to exist, and earlier this year substantial reserves of minerals, including copper, were discovered. Lead, zinc, iron, chrome and marnesite were found and prospecting continues. In addition, it has been recently announced that contracts worth \$500 million have been awarded for the development of natural gas resources.

In view of the massive earnings from oil flowing into the state treasury, a new government planning organisation was set up in 1973 called the Organisation for General Development, which has overall responsibility for the Centre for Economic Planning and Development (including national planning and statistics), the Department of Commerce and Industry, the Department of Agriculture and Water Resources and the Department of Municipal Affairs, which includes town planning.

Spectacular progress has been made in health and education, particularly in hospitals and schools built since 1970.

The bulk of spending however, has been on infrastructure projects, including an eight-berth port costing £22 million, a new international airport and an extensive network of paved roads including 316 kilometres along the coast, which is to be completed this year. Electricity and mains water supply have been introduced to most houses in the coastal capital area. Until 1967, Oman's trade with countries other than Britain was negligible; however, in parallel with the growing export of oil, foreign trade has risen sharply. The various development projects now being carried out have resulted in a rapid expansion in imports, and as the money from the oil revenues has reached the general population, there has been a sharp rise in consumer goods. Imports in 1973 are estimated to have amounted to OR40.7 million, an increase of 117 per cent over the previous year's

# WINDOW ON THE WORLD

rapidly and British firms have been especially active and successful in obtaining a good share of new contracts estimated to exceed some £100 million.

Oil dominates the economy and revenues from oil accounted for more than 95 per cent of the country's national income of OR220 million in the 1974 budget. Despite its importance, oil has been a relatively new addition to the economy: large-scale production started only in 1967 with an average of 2.8 million metric tons per annum. Since then, production has increased rapidly until it reached a peak in 1970 with a total of 16.5 million metric tons. Because of difficulties with reservoir pressures, there has been a decline subsequently

existing farm system. Under the guidance of a number of government farms (with a network of service centres throughout the country), farmers are advised on improved methods of cultivation and assisted with subsidies to buy fertilisers and high-yielding seeds. Cereal crops, principally wheat and lucern, are grown for the domestic market, whilst dates, limes, pomegranates and tobacco are the chief export crops. Cattle breeding is extensively practised in the fertile southern regions of Dhofar, and the Oman camel, highly valued throughout Arabia, is bred in all parts of the country.

The coastal waters of the Gulf of Oman and seas off Dhofar are some of



figure (OR18.7 million). Non-oil exports were OR609,000 in 1973, almost double the 1972 figure of OR 395,000.

Oman has been successful in diversifying its markets, and since 1972 the Gulf states have replaced Britain as its principal suppliers. Imports from the Gulf states in 1973 totalled OR10.1 million, while Britain supplied goods worth OR7.7 million. The Netherlands increased its exports by a spectacular 350 per cent to reach OR3.5 million in 1973, closely followed by Japan and West Germany. Other trading partners include Australia, India and Pakistan. The United States and China are newcomers to Oman's market. Oman's exports, apart from oil, are mostly agricultural and are sold to neighbouring states in the Gulf and to India.

## II

### **Qatar**

Amir H.H. Sheikh Khalifa Bin Hamad Al-Thani

Exchange Rate 9.26 Riyals = £1  
(£1 = U.S. \$2.33)

Since coming to power in February, 1972, Sheikh Khalifa has followed a vigorous programme of political and economic development. A policy of friendly relations with other Arab nations, especially those in the Gulf region, has been pursued and the state has joined the International Monetary Fund, the International Bank for Reconstruction and Development, and the Arab International Bank for Trade Development. GNP reportedly rose by 37 per cent last year, and an even faster rate of growth is anticipated this year.

However, inflation continues a problem and, in an attempt to stem the rise in the cost of living, rents and the prices of various foods have been frozen (Someone ought to tell the Amir that price freezes do not halt the trend of prices but merely create shortages of supply). A new currency was introduced in 1973, the Qatar Riyal replacing the Qatar/Dhubai Riyal.

Economic policy aims to modernise the country, raise the standard of living and diversify the economy by developing industry. Efforts in recent years have concentrated on building up the comparatively under-developed infrastructure: communications are being improved, plans have been drawn up for a new airport outside Doha, an earth satellite station is to be constructed, Doha seaport is to be expanded, and 175 kilometres of roads are being built. A ten-year development plan was drawn up in 1972,

covering housing, education, health, communications and industry, and a two-year implementation project has been launched. The plan provides for expenditure over 1972-1982 of QR10,000 million, but this figure is likely to be substantially revised upwards as a result of the recent increases in oil revenues. Priorities are reflected in the 1974-75 budget. Some QR616 million is to be spent on development projects, 72 per cent more than in 1973-74. Housing, electricity and water have been allocated QR182 million, transport, agriculture and industry QR181 million and social services QR102 million.

Oil is the most important industry and source of income, accounting for well over 90 per cent of total government revenues. Proved reserves of oil are at present estimated at 800 million metric tons, and it is likely that new finds will be made. Despite politically motivated production cuts in the last quarter, the output of oil in 1973 totalled 27.5 million metric tons, compared with 23.3 million tons in 1972.

However, revenues have been rising at an ever faster rate and, following the quadrupling of posted prices last year, it was forecast that oil receipts would increase from around \$397 million in 1973 to reach \$1,391 million this year. The state's income from oil should further benefit from a participation agreement concluded in February, whereby the government obtained a 60 per cent share in the operation of the two major oil companies producing in Qatar. Further negotiations led to agreement on a buy-back price (the price at which the companies agreed to purchase the state's share of oil) equivalent to 93 per cent of the posted price for crude oil. It has been recently reported that the government does not intend to raise production above the current level in order to conserve reserves.

### **new organisation**

A new organisation, the Qatar Corporation, has been established, which will handle all the state's oil interests and be responsible for exploration, marketing and other aspects of the industry. The Qatar Gas Company has also been formed to develop the substantial natural gas reserves, estimated at 250,000 million cubic metres. A £25 million liquefied natural gas (LNG) plant with a capacity of 800,000 tons of LNG a year, is nearing completion. The LNG surplus to domestic requirements is to be exported to Japan.

Although agricultural output overall

is insufficient to meet domestic needs (food accounts for 17 per cent of the value of imports), substantial improvements have been made and the country is now more than self-sufficient in vegetables. Water and land resources are sufficient for output to be expanded substantially and a five-year plan is on the way; self-sufficiency is the eventual target. Since the establishment of the Qatar National Fishing Company in 1966, shrimping has become a major industry with modern trawlers and refrigeration and processing equipment.

An ambitious programme of Industrial development has been launched, but it will be some considerable time before industry contributes significantly to national income. Cement is one of the most important non-oil industries; output has recently been doubled to 600 tons a day to meet the demand created by the construction boom. A fertiliser plant, run on natural gas, was opened last year and a flour mill, completed in 1972, is now producing sufficient to meet domestic needs. A \$150 million iron and steel complex is to be built in the Umm Said industrial area, but most of the industrial projects already planned are based on the country's hydrocarbon resources. They include a refinery with a capacity of about 10 million metric tons a year and a £900 million petro-chemical plant producing ethylene and polyethylene.

### **healthy economy**

The healthy state of the economy is reflected in the overseas trade accounts. In 1973, imports increased by almost 30 per cent to reach an estimated QR778 million, more than three times the value of imports in 1969, but accounting for less than half of the value of oil revenues. Industrialisation has had an impact on the composition of imports, some 25 per cent of which now consist of industrial machinery and equipment.

Imports of construction materials, some QR13.5 million in 1973, are also expected to increase rapidly as the massive expansion of the construction industry planned over the next twenty years takes place. Domestic prosperity is best shown by the apparently insatiable demand from the 170,000 population for a wide variety of consumer goods and foodstuffs.

Britain, Qatar's principal supplier, provided 28 per cent of total imports in 1973 followed by Japan and the United States with 11 per cent. In order to assist the development of entrepot trade, Doha was made a free zone in 1972, and an increasing amount of imports are

being re-exported to other countries in the region. Domestically produced non-oil exports are small, exports and re-exports totalling only QR67 million last year. However, as local industry gets under way a growth in industrial exports can be expected.

### III

#### Kuwait

Amir H. H. Sheikh Sabah Al-Salim  
Al-Sabah  
Exchange Rate 0.68 Dinars=£1  
(£1 = U.S. 2.33)

Developments in oil have predominated during the past twelve months. Although production fell by almost 9 per cent last year to 138.3 million metric tons, Kuwait maintained its position as the third largest oil producer in west Asia, with around 12 per cent of the area's total output. Present reserves are estimated at some 8,800 million metric tons. This year participation agreements, giving the state a 60 per cent share of oil production, have been concluded with the Arabian Oil Company (Japan) which operates in the Partitioned Zone where Kuwait and Saudi Arabia have equal interests.

In September, the government and KOC reached an agreement covering the amount of oil which the company would buy back from the state. In the past three months the government, reportedly, has reduced oil production in order to conserve reserves and maintain prices.

#### international reserves

In view of these developments, it is difficult to estimate future oil revenues. However, it is likely that this year they will amount to some \$7,000/\$8,000 million, compared with around \$2,000 million in 1973. This increase has already had an appreciable effect on international reserves, which rose from \$501 million at the end of last year to \$938 million by the end of August. The impact of oil revenues has also been seen in the record state budget for 1974-75 approved in July.

This showed a 69 per cent rise in revenues to KD959.9 million, 96 per cent of which is to come from royalties paid by oil companies and taxes on oil. Increased allocations have been made for ordinary expenditure (KD394 million) and for development projects and the acquisition of property (KD180 million). Nevertheless this still leaves some KD389.4 million

to be transferred to the General Reserve Fund.

The main increases in ordinary expenditure are on education and public health, which are to receive KD31.4 million respectively. Some KD39.4 million is allocated for defence. The major items of development expenditure are public works (KD48.8 million) and electricity and water (KD50.6 million). A large part of the expenditure on public works is to take the form of health projects, including four new hospitals and two new medical centres.

Rising oil revenues have also provided Kuwait with the means to expand its industrial base and extend financial aid to other countries. One of the major industries is the Kuwait Chemical Fertiliser Company (KCFC), which produced some 760,000 tons of urea and ammonia sulphate last year, exported mainly to China, India, Sudan and Pakistan. Production this year is expected to increase by 10/15 per cent.

#### cement, steel industries

A cement plant with an annual capacity of 300,000 tons began production in March, 1973; a second plant with a capacity of 750,000 tons a year is planned. A metal industry is also developing and in August it was announced that Kuwait, Bahrain and the United Arab Emirates were to participate in a KD15 million company, based in Kuwait, which would produce iron and steel in the Gulf area.

Among other major industrial projects planned are a \$300 million petrochemical complex and the expansion of the Ahuaiba industrial estate, which will include the provision of shipping facilities to meet the anticipated growth in exports and the construction of a small dry dock. Flour and asbestos are other important industries. Infrastructural facilities are being expanded in line with industrial development, and in August contracts totalling KD 70 million were awarded for the construction of two power stations. Kuwait has the largest tonnage of oil tankers in west Asia (796,000 tons) and a further 1,195,000 tons are on order. It is also planned to expand the merchant fishing fleets.

The Kuwait Fund for Arab Economic Development (established in 1961) has been an important source of aid for other Arab nations. In the first nine months of this year it provided loans totalling over KD30 million to Egypt, Tunisia,

Syria and South Yemen. Its capital has recently been raised to KD1,000 million and its scope widened to include non-Arab developing nations. It is estimated that some \$2,000 million of oil revenues are likely to be re-cycled in the form of aid to Africa and Arab nations this year, and a large part of the remainder will be invested in Europe and the United States.

In September, it was announced that a Higher Council for Oil would formulate investment policies for oil revenues.

#### Total Trade (In millions of dinars)

|      | Exports | Imports | Balance |
|------|---------|---------|---------|
| 1967 | 484.4   | 184.1   | 300.3   |
| 1972 | 981.3   | 228.0   | 753.3   |
| 1973 | 1,129.8 | 270.1   | 859.7   |

The value of exports rose by 15 per cent last year to KD1,129.8 million (92 per cent of which was oil), and imports by 18 per cent to KD270.1 million. The UK accounted for 15 per cent of total exports and 10 per cent of imports. As industrial development gathers pace, imports of consumer and capital goods are likely to increase substantially; prospects for the construction industry are particularly bright. With the boom in oil revenues, last year's trade surplus of KD859.7 million is likely to be far exceeded this year.

Nevertheless, Kuwait has its problems. A prolonged border dispute clouds relations with Iraq, although by the beginning of this year the situation was showing some improvement. There is potential internal friction in the substantial difference in status between Kuwaiti nationals and immigrants, who come mainly from Palestine, Iraq, Syrian and Egypt and who comprise some 57 per cent of the total population of 876,000. Inflation (13 per cent last year) is also causing concern; government measures to combat the rise in prices have included increases in the salaries of public employees and the exemption of most food-stuffs from import duties.

**Sources and acknowledgements:** This is the first of two articles summarising reports on the fantastic developments in the Gulf states, following the Arabian "oil miracle" issued by the Barclays Bank Group Economic Intelligence Unit (54 Lombard Street, London E.C. 3P:3AH), but the EIU is responsible neither for the emphasis of my summary nor for my interspersed comments based on a variety of sources. Next week's concluding article will cover Bahrain and the seven United Arab Emirates.

# Into new year with gloom

E.B. Brook  
Vienna

WEST EUROPE has begun its new year moodily. Its press regales the public with a series of sad tales—the wobbly price of gold, even more wobbly dollars and pounds surviving crises with the aid of the increasingly strained Deutschmark, prestige car firms closing, going on short time or laying off staff—and spicing the dreary mixture with a series of hate-cartoons of the Arabs and hints of a US super-force seizure of Gulf oil fields in the crudest spirit of the 1956 Suez occupation. The Germans are as bad in this attitude as the Americans or the British. The whole consorts extremely ill with the competitive rush by European firms for “cooperation deals” with Saudi Arabia and the oil Seikhdoms and the willingness of prestige European firms such as Krupps and Mercedes Benz in West Germany, Richard Costain in Britain and some well-known names in the USA to accept up to 25 per cent Arab capital with or without voting rights.

## uncomfortable thoughts

Both the Europeans and the Americans are uncomfortably aware that it is now nearly 18 months since the oil producers through their organisation OPEC significantly raised the price of crude oil and placed a temporary embargo on supplies to Holland and that in the meantime they have done nothing significant about either the continuous price increases or very much about their own resultant problems. Their governments are also perceiving that their populations—and electors—are keenly aware of this also and that it is they, through the climbing prices for all commodities, shrinking work and earning opportunities and less worthwhile money, who are collecting all the most uncomfortable results of the overturn of world economics so easily brought about by people previously all too comfortably taken for granted.

It has taken a long time for the reputedly shrewdest trading nations to realise that this economic overturn requires not only negotiation but a changed life-style. The Europeans’ fat years are over for the foreseeable future and they adapt to leaner times, with less luxury and less travel, with markedly ill grace. The absorption of major Arab investment may be regarded as a version of the old principle of “If you can’t beat them, join them” but governments are acutely aware of public sensitivity to major parts of their more worthwhile national undertakings being sold to oil-producers merely in

order to get some oil purchase money back. So far, Europe’s success story state, West Germany, has done nothing much more than absorb Arab and Iranian money in this way; the British have joined them in pushing their banking services in west Asia but it has been left to the French and the Italians to lead the way in attempting a major export drive.

## export programmes

The basic French idea in handling oil prices is to build up massive, long-term export programmes. Four recent French missions to oil-producing countries led respectively by the prime minister, the Foreign minister and the Interior minister, have developed the base from which France intends to operate in this year’s crucial oil diplomacy. *Le Monde* has called it a “policy of payments”. The French are convinced that the American idea that it should be possible to drive oil prices down is illusory.

The French prefer Arab and Iranian orders to their investments. The deals they have arranged—some yet to be brought to the contractual stage—are worth more than 13 billion dollars and would be worth 3 billion dollars a year to French industry or, as *Le Monde* remarks, “100 days’ worth of oil imports”. The deals would also give a fillip to those French industries such as engineering, construction and automobiles which are threatened with contraction. French agriculture would also benefit from the orders from Iran. France has sold Iran its colour television system SECAM, two nuclear energy plants and an underground construction for its capital as well as trains, a fleet of ships to carry liquefied gas and a car factory. There are however criticisms of this success story.

The Italians, benefitting by about 624 million dollars from the Common Market’s Regional Fund, are planning a more old-fashioned remedy—cutting down on imports and concentrating effort on boosting exports by selling more cheaply within the Market area where anything with a lower price will be very welcome. Italy is also benefitting from its earlier cooperation with Iran in exploiting its oil and it has been included in the Iranian hand-out of massive orders for industrial material.

For the more prosperous West Germans, uncommonly nervous of both inflation and unemployment, the way ahead

will be more cautious. The prime need is a continuance of peace at home; there are covert hints that the present coalition of the Socialists with the small Liberal party with a narrow majority in parliament may give way this year to a “big coalition”, as in Adenauer’s days, between the Socialists and the conservative Christian Democrats. Even with peace on the home front, the German problem, as described this week by the Dresdner Bank, will be to find in the next five years enough cash to cover its huge requirements for industrial investment. West Germany, to keep up its social prosperity, needs an annual growth in real social product of between 3½ and 4 per cent. With the shadow of continuous price increase during 1975 of up to 7 per cent the strain on investment capital to produce enough growth to finance the domestic spender will require an extra earning of up to 2 billion marks.

## recycling funds

While the Finance ministers of the 10 leading industrial nations meet in Washington in mid-January to study further the “recycling” of Arab funds to the west, which expects a 65-billion dollar deficit on oil this year, their governments are revising the rules under which they permit foreign investment. The Arab and Iranian oil earnings are more than welcome in west Europe but public worry about foreign ownership or foreign buying into defence industries is so marked that almost everywhere controls over outside investment are being re-read and, where necessary, made firmer and more precise. Iran and Kuwait have already been refused permission to buy sizeable blocks of shares in two leading defence contractors in the USA. West Asian money is welcome in Coca-Cola but not in nuclear armaments. OPEC itself realizes that investments attractive to the buyer, may be sensitive areas to the seller. The subject of investing “re-cycled” money will be one of the key issues at the conference of oil-producer and consumer nations that may begin in March. At present Japan is the most restrictive area for the foreign investor—with 30 per cent as a maximum holding—Britain and France are uncomfortable about even a 20 per cent share but permit more, Italy is flexible and the Belgians and Dutch have administrative machinery to block foreign investors. West Germany has only notification precautions and it is in Bonn that most work is being done to make German investments more exclusive.

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|--------------------------------------------------|----------------------|------------------------------------------------------|--------------------------------------|
| <b>JANTA CATEGORY</b>                            |                      |                                                      |                                      |
| Kalkaji Phase II                                 | 265                  | 2-12-1974                                            | 15-1-1975                            |
| Madipur                                          | 600                  | 1-2-1975                                             | 15-3-1975                            |
| <b>LOW INCOME GROUP</b>                          |                      |                                                      |                                      |
| Pankha Road                                      | 70                   | 2-12-1974                                            | 15-1-1975                            |
| Lawrence Road                                    | 45                   | 2-12-1974                                            | 15-1-1975                            |
| Sunlight                                         | 14                   | 2-12-1974                                            | 15-1-1975                            |
| Naraina                                          | 6                    | 2-12-1974                                            | 15-1-1975                            |
| <b>II</b>                                        |                      |                                                      |                                      |
| Rajouri Garden                                   | 150                  | 1-2-1975                                             | 15-3-1975                            |
| Prasad Nagar                                     | 231                  | 1-2-1975                                             | 15-3-1975                            |
| Rehgarpara                                       | 14                   | 1-2-1975                                             | 15-3-1975                            |
| Kalkaji                                          | 600                  | 1-3-1975                                             | 15-4-1975                            |
| <b>MIDDLE INCOME GROUP</b>                       |                      |                                                      |                                      |
| Rajouri Garden                                   | 64                   | 2-12-1974                                            | 15-1-1975                            |
| Pankha Road                                      | 160                  | 2-12-1974                                            | 15-1-1975                            |
| <b>II</b>                                        |                      |                                                      |                                      |
| Pankha Road                                      | 348                  | 1-2-1975                                             | 15-3-1975                            |
| Malviya Nagar                                    | 12                   | 1-3-1975                                             | 15-4-1975                            |
| East of Kailash                                  | 82                   | 1-3-1975                                             | 15-4-1975                            |
| Munirka                                          | 200                  | 1-3-1975                                             | 15-4-1975                            |
| <b>OTHER GROUP</b>                               |                      |                                                      |                                      |
| <b>(FOR REGISTERED RETIRING PUBLIC SERVANTS)</b> |                      |                                                      |                                      |
| <b>LOW INCOME GROUP</b>                          |                      |                                                      |                                      |
| Rajouri Garden (Category-B)                      | 149                  | 1-3-1975                                             | 15-4-1975                            |
| <b>MIDDLE INCOME GROUP</b>                       |                      |                                                      |                                      |
| Sheikh Sarai (Category-C)                        | 88                   | 1-3-1975                                             | 15-4-1975                            |

### About Plots:

The allotment of plots will be made by draw of lots. The income limit for the Low Income Group is upto Rs. 7,200/- and for the Middle Income Group, it is between Rs. 7,201/- and Rs. 18,000/-. Those who do not own any other plot or house in the Union Territory of Delhi and have been continuously residing in Delhi, for the past five years would be eligible. 15% of plots in each category are reserved for the Scheduled Castes/Scheduled Tribes. There are certain reservations for other categories as well and the details in this regard are given in the application form.

Application forms and detailed particulars for plots can be had for Rs. 3/- from the Forms Sales Counter of Delhi Development Authority, Vikas Bhawan, Indraprastha Estate, New Delhi on any working day from 10.30 a.m. to 1 p.m. and from 2 p.m. to 3.30 p.m. from December 16, 1974 onwards. The applications would be received from December 23, 1974. The last date for receipt of applications for plots will be February 15, 1975.

### About Flats:

So far as the flats are concerned, these have been offered only to the registered persons, applications for which should be made only by such persons. If, however, the number of registered persons applying for flats is less than the number of flats available in a particular locality, requests of unregistered persons would also be considered as and when announced.

# DEVELOPMENT AUTHORITY

## Plots at Reserve Rates is To the Weaker Sections

| Scheme                                       | No. of<br>plots<br>offered | PLOTS |     |
|----------------------------------------------|----------------------------|-------|-----|
|                                              |                            | MIG   | LIG |
| East of Kailash Phase I & II. (Suraj Parbat) | 32                         | 21    | 11  |
| Jhilmila Phase I                             | 3                          | 2     | 1   |
| Malviya Nagar Extn.                          | 141                        | 100   | 41  |
| Masjid Moth                                  | 1                          | 1     | —   |
| Naraina                                      | 67                         | 54    | 13  |
| Najafgarh Road                               | 1                          | —     | 1   |
| Pankha Road                                  | 125                        | 74    | 51  |
| Paschimpuri                                  | 419                        | 378   | 41  |
| Safdarjang                                   | 3                          | 3     | —   |
| Wazirpur Phase I                             | 16                         | 12    | 4   |
| Wazirpur Phase II                            | 97                         | —     | 97  |
| Wazirpur Phase III                           | 13                         | 13    | —   |
| Bodella                                      | 1000                       | 300   | 700 |

15% of flats in each category are reserved for Scheduled Castes/Scheduled Tribes. There are certain reservations for other categories. The details in this regard are given in the brochure/application forms.

In the case of Harijans another concession that has now been extended is that at the time of taking over possession the amount to be paid towards initial deposit by the Harijan Allottees will be Rs. 1500/- less in respect of Janta and Low Income Categories.

Before making an application for the allotment of a plot, the applicants should make sure that he or she fulfils any one of the conditions given below as regards the conditions of five years' continuous stay in Delhi :-

- (1) The Govt. servants including army personnel working outside Delhi may apply under the scheme if they have declared Delhi as their Home Town in the service records five years before the last date of receipt of applications.
- (2) Any person working outside Delhi may apply under the scheme if his family has been continuously stationed at Delhi for the last five years preceding the last date of receipt of applications.

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(JAGMOHAN)  
Vice-Chairman  
Delhi Development Authority

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And so R & D goes on. Researching and designing new products. Developing new ways of keeping costs down and production up. Increasingly

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In October 1974, Escorts completed its 30th anniversary. And the people of Escorts are making it an occasion to turn the searchlight inwards. To ask themselves some searching questions. Like: has the time and money on R & D been well spent?

And the answer we receive from all around is encouraging. Come on, Escorts. Produce some more "nothing" for us!

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HT-EL-100/74

## I last wrote this column

on October 11. Normally it would not have been possible for Moving Finger to recapture promptly the ferocious fluency which some of my correspondents seem to regard as the only virtue it may possibly possess. Mr Inder Gujral, however, has come to its help. In the name of an International Film Festival he has inflicted on our country an odious outrage which is absolutely unnecessary and altogether avoidable. Granted that it is a basement bargain, it is still such a sleazy shop-soiled piece that even his smart-Alec salesmanship has failed to make much of it.

Any one less brash than our minister of Information and Broadcasting would have paused to ask himself what title our country has to stage an International Film Festival. After all, we have not been able to maintain even a reasonably free market for the products of the film industries of other countries. As for our export of Indian films, it is merely yet another exercise on the part of our nationals in international smuggling or black marketing. The bulk of our film production is such that it only further vulgarizes the masses. There is little in any part of our cultural life which the film-folk of Bombay or Madras have not touched without defiling. I am not saying that all our film-makers are rash; that would be patently absurd, but the exceptions only emphasize the fact that the Indian film world must become much better and freer than it is before it dares go anywhere near hosting an International Film Festival with any sense of self-respect. As it is, when more than one international event scheduled to be held in our country has been cancelled or postponed, Mr Gujral has got away with his cheap ego trip.

I suppose that it has not cost him many nights' sleep that, in the process, he has created a situation in which the Indian capital and its denizens have been given unlimited opportunities for exhibiting themselves in the worst possible light. Black marketing in cinema tickets has always been one of the more persevering professions in major Indian cities and Delhi's record in this respect is perhaps

only less unwholesome than Bombay's. Distributors, exhibitors and their sickly legions of tricksters and touts have always been quick to turn a flatful of dishonest pennies and the way the minister's minions have managed to mismanage this festival business has made it possible for these sharks to indulge their blood lust to the utmost. Hardly less disgusting has been the slaver response of thousands of middle-aged or even more elderly men and women from Delhi's middle-class households to the opportunity Mr Inder Gujral has given them of tasting the vicarious pleasures of celluloid pornography.

## If some of us choose to

have fun by burning an effigy of Ravana on ceremonial occasions, I just do not see why others may not similarly attempt to amuse themselves by burning an effigy of Rama. It is philosophically true that nothing in this world is wholly good or wholly evil. Rama is as much a concept of man's mind as Ravana and we human beings are notoriously prone to create gods or, for that matter, demons, in our own image. If Ravana's effigy is burnt periodically because this mythological creature was supposed to have been or done something which we do not happen to approve of, is it not a good enough reason for some of us who may believe that there is another side to the story to carry out compensatory or even retributory incendiarism? Seriously, I believe that it is not merely objectionable but obscene to burn effigies of bygone legendary figures as an act of spiritual vindication or moral assertion. Past personalities, whether fictional or real, are best left to rest in peace. There is no point in symbolically resurrecting and cremating them again and again, for this is no way of exorcising such evil as there may be in the individual or the collective heart. If we must burn effigies at all, let us rather burn effigies of living persons whose public conduct or public career we believe we must object to. This way we could work off our aggression without causing any physical or other real harm to those public figures who happen to arouse our displeasure or resentment. It

would be best of course if we do not burn effigies at all. We should after all start saving fuel some time. Why should we not make a beginning with this effigy business?

The DMK activists, who burnt the effigies of Rama, Sita and Lakshmana in Madras recently, were of course not prompted by philosophical reflections. They were simply acting out their peculiar brand of cultural fantasy—an issue of non-existing Dravidians against equally imaginary Aryans. The less simple-minded among them, however, are only too mindful of the political possibilities of such symbolic exercises. Ravana versus Rama is in other words a matter of personifying the south versus north syndrome. I personally do not believe that the DMK can make much political capital out of it, but I would be happy indeed if the burning of the effigy of Rama in Madras were to lead to Ramleela being celebrated this year in Delhi without the easily dispensable ritual of burning the effigy of Ravana. In any case the prime minister at least could use her influence to see that the annual fire-show on the Ramleela grounds is not organized or gone through as an official or semi-official function.

## I recently read some-

where Mrs Indira Gandhi being quoted as saying that "my father's sensitivity made him abhor all show and ostentation". I do not want to contest this observation so far as Jawaharlal Nehru's way of living or personal habits were concerned although I must say that I always felt that his practice of sporting a red rose had to do with something else than a simple love of things beautiful in Nature. However, in the public context of his prime ministership, Jawaharlal Nehru certainly did not act as if he had no use for ostentation. On the contrary, his proneness to gigantism in the public sector was essentially as ostentatious as, let me say, the wearing of a mink coat by a tycoon's girl friend. It could also be suggested that there was always a lot that was ostentatious in the manner in which he conceived or carried out this country's foreign policy during most of his prime ministership. It seems to me that ostentation is not simply a matter of having half-a-dozen palatial houses in different parts of the country or keeping a dozen big cars in the garage. In fact the ostentation often seen in the policy-making or public conduct of political leaders could be a bigger drain on a nation's material and moral resources than the conspicuous consumption of multi-millionaire individuals.



# MOVING FINGER



# TRADE WINDS

## Indian Trade Team in West Asia

A SEVEN member Indian Industrial Delegation sponsored by the Federation of Indian Chambers of Commerce and Industry, with the active support of the government, and led by its President, Mr. K. K. Birla, visited Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates beginning January 11, 1975. The objectives of the delegation were to establish contacts and liaison with commercial organisations and business men in West Asia; to investigate the possibilities of setting up joint ventures and promotion of two-way trade; to foster other forms of techno-economic cooperation; and to assess the need for setting up Business Cooperation Committees with some countries in West Asia.

Besides Mr. Birla, the delegation consisted of Mr. D. Jayavarthanavelu, Managing Director, Lakshmi Machine Works Ltd.; Mr. D. N. Patodia, Director, Hindustan Dealers Ltd; Mr Pratap Bhogilal, President, Shree Ram Mills Ltd; Mr Amecr Ali Rahimtula, Vice-Chairman, El-Sharikah El-Hindiyah El-Arabiah; Mr K. V. Srinivasan, Director, Standard Motor Products of India Ltd; and Dr Ram Gopal Agrawal, Secretary (Econ.) of FICCI.

## Woollen Capacity

The government has decided to allow additional capacity in the woollen industry in order to raise the export capacity. All priority units in the woollen industry could instal an additional 1,200 worsted spindles and 20 powerlooms.

This was announced recently by the union minister for Commerce, Prof. D.P. Chattopadhyaya, while inaugurating the first meeting of the development council for woollen industry. He also announced that the government has approved an increase in the combining capacity of the order of 26 million lbs. The minister noted that the industry faced the problem of getting adequate and regular supply of raw material.

## Insurance for Government Employees

The union government announced recently a provident-fund deposit linked insurance scheme for its employees. In the event of the death of an employee while in service, his family will be paid an additional amount equal to the average balance in his account during the past three years. The insurance cover available in the event of the death of the employee is being provided without any payment of premium. It will cover 2.9 million employees including those in the railways and defence establishments. According to the Finance ministry announcement another purpose of the scheme was to provide an incentive to government employees to save more through subscription to the provident fund. It is understood that because of the price rise, government servants have been withdrawing from their provident funds on various pretexts to meet their growing daily expenditure. The announcement states that the family of a government employee who dies in harness on or after January 8, 1975, will be sanctioned an additional amount equal to the

average balance in the account of the government servant in the Fund during the three years immediately preceding death, provided the balance in his account had not fallen below the following limits at any time in the three preceding years: Rs 3,000 for Class I, Rs 2,500 for Class II Rs 1,500 for class III, and Rs 1,000 for class IV. The upper limit up to which the benefit of insurance cover will be available will be Rs 10,000 and amounts in excess of it will be disregarded for the purpose of the extra benefit.

## IDA Credit for Dairy Development

Over three million people in India's rural areas will benefit from the rural and dairy development projects which will be financed by credits totalling \$79.1 million from the International Development Association (IDA), an affiliate of the World Bank. A credit of \$35 million will help India to increase and stabilize agricultural production in six drought-prone districts in four states—Andhra Pradesh, Karnataka, Maharashtra and Rajasthan. The \$103 million project, when completed in 1980, will help to increase the income of over one million people, most of whom belong to the poorest segments of the population. Average annual income gains resulting from the project will range from \$12.5 to \$500. Annual crop production will increase by 58,000 tons, principally of foodgrains. About 85,000 man-years of short-term and 20,000 man-years of full time employment will be generated.

Two other IDA credits totalling \$44.1 million will finance dairy development projects in the states of Madhya Pradesh and Rajasthan. The projects will bring major benefits. Some 400,000 farming households, or about 2.2 million people, in the two states will be able to increase their cash incomes and living standards. Most of these farm less than two hectares or are landless. Milk production will be increased by about 760,000

tons a year, leading to a substantial improvement in nutrition. In addition, the project will provide direct employment to some 14,200 people in the two states. The IDA credits to the government of India are for a term of 50 years, including a 10-year grace period, and are interest free except for a service charge of 3/4 of one per cent to cover IDA's administrative costs.

## Loan to Mauritius

India has agreed to grant to Mauritius a Rs 5-crore loan repayable over a period of 15 years. It has also agreed to extend Rs 10 crores as commercial credit. An agreement for the Rs 5-crore loan was signed recently by the Finance minister Mr C. Subramaniam and the Mauritius minister of Economic Planning and Development, Mr Kher Jagatsingh. According to the agreement the Rs 5-crore loan will carry an interest of five per cent. It provides for three years of grace period. Of the total loan amount, Rs 3.6 crores is already committed to a number of projects that had been identified by the two countries in their recent meetings. The remaining Rs 1.5 crores would provide Mauritius an element of flexibility to take up projects which are in the process of being identified. Mr Jagatsingh added that the commercial credit offered by India would be utilised for the purchase of transport equipment, heavy engineering goods and power generating sets. The list includes requirements of both government and private sector projects. Apart from these two credits, India has also agreed to provide assistance to Mauritius in certain other projects. The total amount of assistance offered to Mauritius works out to about Rs 17.5 crores. There are nearly 12 joint projects in Mauritius, mostly with private Indian collaboration. These include a hotel projects, a cement plant, a textile mill, steel rolling mill and a rubber unit. Besides these projects, Mauritius has also shown keen interest in the setting up of

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a flourmill in that country with Indian cooperation.

### Buses for Zanzibar

Ashok Leyland has announced that it has secured an export order worth Rs 28 lakhs, for the supply of 20 buses to Zanzibar, Republic of Tanzania. The Republic of Tanzania is the third African country which has recently decided to order for Ashok Leyland buses. This order closely follows two other such orders from Zaire and Zambia. It may be recalled that the order from Zaire was one of the biggest ever export orders for an Indian manufacturer, worth Rs 10 crores. The agreement with the Republic was recently signed at Madras. On an invitation from Ashok Leyland, a team from Zanzibar visited Ashok Leyland. The team was headed by Col. Ramadhan Haji, Chairman of the Import and Export Committee, which included Mr Dourado, Attorney-General and Mr Amour Khamis, an Engineer. Mr A.D. Hassan, the High Commissioner for the Republic of Tanzania in India, accompanied the delegation. The team, which spent a whole day visiting the plant and various sections of the Company, was impressed by the giant nature of the organisation and its emphasis on high quality products. While signing the agreement for 20 buses, based on 210" and 176" WB 'Comet' chassis, the leader of the team stated that he expected this initial order to be the start of a continuous and long term association with Ashok Leyland and that he felt sure that once these buses started operating on the roads of Zanzibar, requests for more buses would follow.

### Credit for Sugar

The Indian Sugar Mills Association has expressed serious concern over the Reserve Bank's directives to all the nationalised commercial banks restricting credit availability to the sugar factories during the current season 1974-75 to the extent

of outstandings in the previous seasons 1972-73 or 1973-74.

The Association has regretted that the entire approach of the Reserve Bank to this matter is totally unrealistic and does not take into account the actual needs of the situation. When the costs have increased substantially with sharp increase in the cane prices and other cost escalations following inflationary pressures on the economy, the sugar factories would find it hard to operate within the limits allowed to them during the previous seasons.

In a communication to the Reserve Bank the Association has stated that in the larger interest of cane growers and for maintenance of sugar production it is essential that adequate credit is made available to the sugar factories enabling them to maintain timely and regular cane payments. During the last season 1973-74 considerable difficulties were faced by sugar mills in maintaining timely cane payments in the absence of adequate bank credit which fell short of actual requirements by as much as Rs 75 crores in the peak period. Delayed cane payments by sugar factories due to inadequate bank credit could result in diversion of cane to gur and khandsari and consequent loss of sugar production.

### Sugar output

According to the Indian Sugar Mills Association, the sugar production in the month of November, 1974, the second month of the season 1974-75 was above 3,45,000 tonnes as against 2,56,000 tonnes during the corresponding period last season. This brings the total production during the first two months of the season 1974-75 to about 408,000 tonnes as against 322,000 tonnes during the corresponding period last year. The off-take of sugar from factories during the month of November, 1974 was about 2,53,000 tonnes for internal consumption and 49,000 tonnes for exports as against about

2,73,000 tonnes for internal consumption and 34,000 tonnes for exports in the corresponding period last season. The total despatches in the first two months in 1974-75 was 543,000 tonnes for internal consumption and 94,000 tonnes for export as against 578,000 tonnes for internal consumption and 82,000 tonnes for exports during the corresponding period last season. The total closing stock of sugar with the factories on November 30, 1974 was about 594,000 tonnes as against about 503,000 tonnes on the same date last season.

### Economic Journalist meet

The second International Seminar of Economic Journalists will be inaugurated in New Delhi on January 22, 1975. The plenary sessions will begin on the morning of January 23. The seminar will conclude its deliberations on January 28. The theme of the seminar is "The World Economy in Crisis—Inflation, Energy Costs and Trade Dilemmas". Mr Claude Cheysson, Commissioner for Development at the EEC, is arriving to participate in the seminar as also many economic journalists from various countries of the world. In addition, the World Bank, the FAO, the UNDP and the Asian Development Bank have also agreed to participate.

### Economic Association Conference

The Fifty Seventh annual conference of the Indian Economic Association was held under the auspices of the Andhra University, Waltair, Andhra Pradesh from 27 to 29 December 1974. Dr. B. Sarveswararao, Professor and Head of the Department of Economics, Andhra University was the Local Secretary. Dr. Malcolm S. Adiseshiah, Director, Madras Institute of Development Studies delivered the Presidential Address. The following three subjects were discussed at the three sessions: Recent Trends in Welfare Economics; Price Policy in

India; and Regional Economic Development in India.

The subject chosen for the discussion were: Are there Recessionary Trends in Indian Economy? Dr. Babutosh Datta was elected the President, Dr. Gautam Mathur, Vice-President and Dr. V. Shanmugasundaram, Secretary and Treasurer of the Association.

### Grindlays

On January 1, 1975 National and Grindlays Bank Limited changed its name to : Grindlays Bank Limited. The decision to make this change was announced in Lord Aldington's statement issued in April last, and the necessary steps for the change of name have now been taken all over the world. Grindlays Bank business will be exactly the same as that of National and Grindlays.

### Philips Plant

Mr A. C. George, union minister of state for Industries and Civil Supplies, inaugurated recently the new tungsten filament wire and coil factory building at Philips light factory, Kalwa. Philips India's wire and coil activity was started in 1964 and the company has been supplying tungsten filaments to the India lamp industry for the last ten years. The company has now been granted a licence by the government for further integration, which will take Philips India to the swaging stage of tungsten bars. The swaging project would be completed by the end of April 1976.

### New Teleprinter

The Hindustan Teleprinters Limited has developed an electronic teleprinter that has certain characteristics not seen in its foreign counterparts. The government-owned teleprinter factory at Guindy is now testing the prototype. The chairman of Hindustan Teleprinters, Mr. G. U. Menon stated recently that one main feature of the machine was that it can adjust itself to any bursts of speed while typing. It could hold up to 10 words in memory and thus neutralise

the speed bursts. The electronic teleprinter considerably reduces transmission distortions and could be worked at greater speeds than the conventional electro-mechanical teleprinter.

### Premier Car Price Raised

The price of the Premier President car has been raised by about Rs 2,070 by its manufacturers. This is the first price rise in the car market after the government decontrolled car prices on December 31, 1974. The Premier President was costing about Rs 31,300 before this rise and it will now cost about Rs 33,400 on the road.

### Tax Relief for Unit Investors

A Presidential Ordinance was issued on January 7, granting further relief to investors in the Unit Trust. The Ordinance, which amends the existing Unit Trust of India Act and the Indian Trust Act, raises the exemption limits for income and wealth tax payers who invest in units. In the case of the former, the exemption limits has been raised from the existing level of Rs 3,000 to Rs 5,000 and in the case of the latter from Rs 1.5 lakhs to Rs 1.75 lakhs, provided Rs 25,000 of it are invested in Units. The government was constrained to resort to this measure because of the sagging interest of investors, especially belonging to the middle classes. In the context of its tight money policy, returns from investments in units had become unattractive.

### Public Issue of Scooters India

Scooters India Ltd., a public sector unit, will offer 49 per cent of its equity shares valued at Rs 2.5 crores to the public. The consent of the Controller of Capital Issues has already been obtained and the company proposes to go public in February. The shares will be offered at par. This is the first public sector company to offer equity participation to public. Part of the

shares to be offered to the public will be reserved for the employees. In no case, the state's shareholding will be

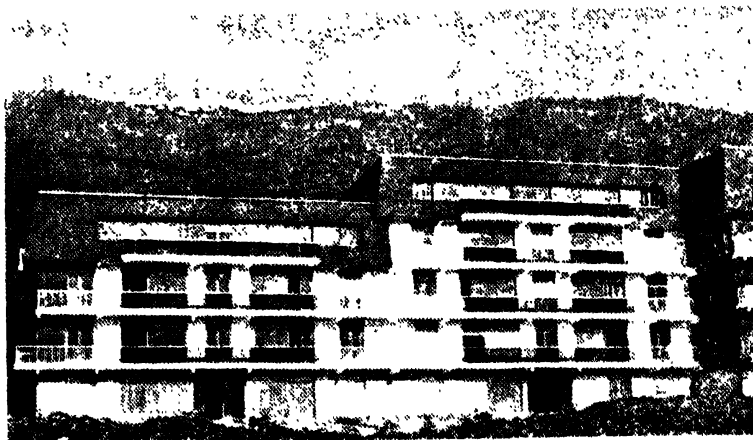
less than 51 per cent so that the management remains firmly in the government's hands. Scooter India is already in an

advanced stage. It has an installed capacity of 100,000 two-wheel scooters and 30,000 three-wheelers annually.

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# COMPANY AFFAIRS

## Hesitant Mood

THE SHARI market continues to be in a hesitant mood. Till recently marketmen were hopeful that the government would allow an upward revision in the present ceiling of 12 per cent on dividend payment. But following the ordinance amending the Unit Trust Act the marketmen have been driven to the conclusion that the government is not likely to repeal the dividend curbs in the immediate future which had been sustaining the markets for the past few weeks. It looks that the market will have to wait for the presentation of the union budget for any official action in this regard. But with the political uncertainty coupled with rumours of snap poll, it is doubtful whether the full-fledged budget will be presented at all in February.

Equities fluctuated both ways in a narrow range in the Bombay stock market last week. Dalal street opened the week on a steady note with selected leading equities moving both ways on alternate bouts of buying and selling. The week concluded on an optimistic note as several scrips staged a mild rally on the last day of the week on short covering and replacement buying. The volume of business during the week was fair and the undertone optimistic. The Calcutta Stock Exchange lost the previous lustre during the week under review with share prices in almost all sections drifting down gradually on short selling or due to profit taking. After a hesitant start the Madras Stock Market showed an easy trend during the week. Enquiries were fewer, resulting in a small turnover. The increas-

ed power cut also affected the market sentiment.

## Jay Shree Tea

Jay Shree Tea and Industries Ltd has released its mid-term report on the working of the company for the seven-month period ended October 31, 1974. Total tea crop during this period was slightly higher. In addition, almost all tea units of the company have improved their qualities of production and hence have merited better prices. There has been a stiff increase in the cost of production of tea due to increase in wages and escalation in costs of other inputs and services. Hence the benefit of increased prices will be reduced to the extent of such increases in cost. Both Assam and Andamans plywood factories have been working normally except for a breakdown at Mariani, Assam, of the slicer machine for a period of four months, thus dislocating decorative plywood production. Plywood markets also show great consumer resistance and lack of demand because of credit squeeze, and sharp decline in constructions due to shortage of cement, discontinuance of exhibitions, fair, etc. Cost of inputs for production of plywood namely timber, glue and wages have also gone up considerably. Superphosphate and sulphuric acid production by Jay Shree Chemicals & Fertilisers was marginally lower than in the preceding year. Off-take so far has been reasonably good and it is hoped that despite increases in cost of production, this unit will fare better during the year. All in all, in spite of significant increases in the costs of production and slackness in demand for plywood, it is hoped that the company

will be able to report improved working results for the year.

## Gwalior Tools

Gwalior Tools Ltd a new company, is entering the capital market on January 20, with a public issue of Rs 10 lakhs in equity shares and Rs 3 lakhs in 10 per cent preference shares. The issue is fully underwritten by leading financial institutions and brokers. The issue is managed by National and Grindlays Bank Ltd. The company is setting up a factory having installed capacity of 40 million pieces of hacksaw blades per annum at Maharajpura Industrial Area, Gwalior. The company is registered with DGTD for the above capacity and on January 2, 1975 another registration for the manufacture of one lakh pieces per annum of tool bits has been granted. The applications for import of capital goods and raw materials have already cleared. Messrs Gust Paffenhoff Renschied of West Germany are the technical collaborators for the project. Hacksaw blades are widely used for cutting steel, aluminium asbestos, brass, bronze, cast iron, copper and many other metallic and non-metallic items. Besides the indigenous demand, there is large growing export market for the product. Hence no difficulty is anticipated in the marketing of its products. The project cost is placed at Rs 38.84 lakhs and it will be financed by the share capital of Rs 19.60 lakhs term loans from Madhya Pradesh Financial Corporation of Rs 17.33 lakhs and Rs 1.91 lakhs as loan from directors and friends. The plant is expected to go into trial production in March, 1975. The project for

the manufacture of tool bits is likely to be implemented in 1975 itself. On the basis of estimated cost and realisation, and widening gap between demand and supply, the profitability of the company appears to be encouraging. The company hopes to declare a reasonable return from the very first year of commencement of production.

## Voltas

A giant pesticides complex will be set up in a backward area near Hyderabad, Andhra Pradesh. A new company styled Vollro Ltd has been registered for this purpose. Promoted by Voltas in collaboration with Rhone-Poulenc, Paris (France) the company proposes to manufacture pesticide technical material and formulations. The company, it is learnt, proposes to manufacture initially 1000 tonnes of technical material of phosalone which is at present being imported. Of this, half will be formulated by the company and the other half sold to other companies for making into formulations. This pesticide is used in controlling pests on cotton, tea and tobacco. The company hopes to go into commercial production by 1977-78. The turnover on reaching full production is estimated at Rs 12 to Rs 13 crores. The project is estimated to cost nine crores of rupees of which Rs 3 crores will be raised through issue of equity capital. Voltas, it is reported, will take up equity shares worth Rs 78 lakhs (26 per cent) while the foreign collaborators will be allotted 32 per cent of the equity capital mainly for supply of capital equipment worth about a crore of rupees. A public issue is proposed to be made sometimes in August-September.

## Kirloskar Brothers

Kirloskar Brothers Ltd has fared exceedingly well during the year ended July 31, 1974 despite an acute shortage of materials, runaway increase in costs of manufacture and credit squeeze. Turnover improved, although modestly, to Rs 22.08 crores from Rs 21.09

crores but gross profit nearly doubled to Rs 126.45 lakhs from Rs 64.18 lakhs in 1972-73. Out of the gross profit, the directors have appropriated a sum of Rs 32.94 lakhs to depreciation reserve as against Rs 29.01 lakhs in the preceding year, while the allotment to development rebate reserve was reduced from Rs 8.80 lakhs to Rs 7.15 lakhs. An amount of Rs 25 lakhs was set aside for taxation as against no provision in 1972-73. The net profit, after these allocations amounted to Rs 61.36 lakhs as compared to Rs 26.37 lakhs in 1972-73. The directors have recommended an equity dividend of 9.8 per cent for 1973-74. It will absorb Rs 12.03 lakhs. The company's exports during 1973-74 went up by Rs 20 lakhs to Rs 80 lakhs and further increase in exports is expected during the current year. In the first four months of the current year the company's sales have been satisfactory as compared to last year. However, signs of slackness in demand for valves, hermetic compressors and some types of pumps are now visible. The demand for hermetic compressors has suffered a set back mainly due to the stiff increase in excise duty on appliances in which such compressors are used.

### Damodar Bulk Carriers

Damodar Bulk Carriers has reported satisfactory progress during 1973-74, with freight revenue and gross and net profits recording substantial improvements over the preceding year. The company paid a dividend of 15 per cent for the year ended March 31, 1973, but in view of the dividend ordinance the directors have recommended a dividend of 12 per cent for the current year. Its freight revenue increased to Rs 5.70 crores from Rs 3.96 crores in the previous year, registering a rise of about 44 per cent. Gross profit too moved up sharply from Rs 1.04 crores to Rs 1.34 crores. After deducting depreciation and preliminary expenses, net profit amounted to Rs 78.85 lakhs, an increase of 66 per cent over

preceding year. Out of this, Rs 45 lakhs was appropriated to development rebate reserve and balance of Rs 50.12 lakhs including Rs 16.28 lakhs brought forward was transferred to general reserve. The directors have decided to make a bonus issue of one fully paid equity share of Rs 100 each for

every one equity share held. In April 1974 the company took delivery of a new gearless bulk carrier of 54,000 dwt from West Germany. The carrier is currently engaged in bringing a cargo of grain to the country. One new bulk carrier of 80,000 dwt on order with Spain is to be delivered

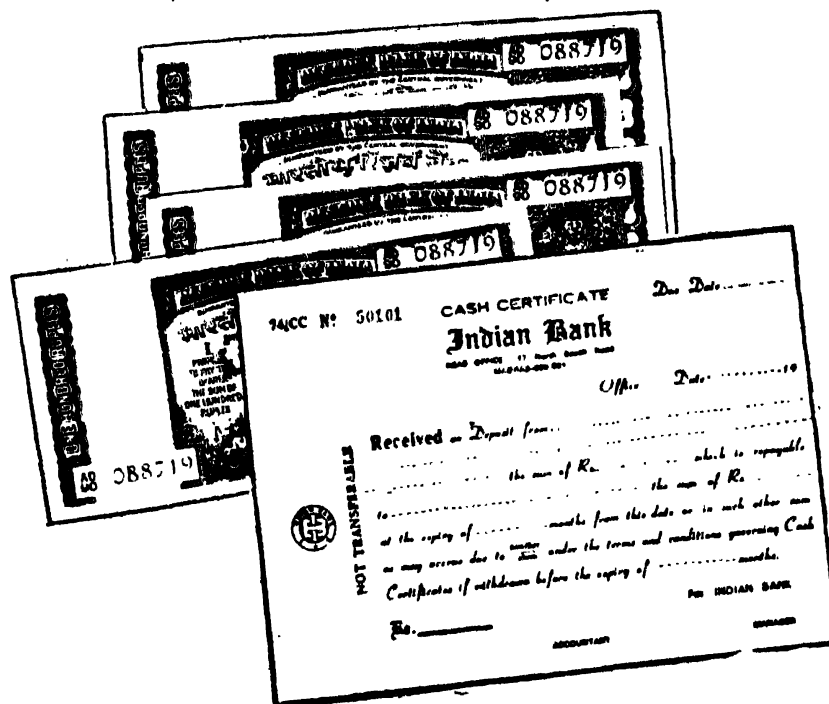
in June 1975 and another 21,610 dwt vessel from Hindustan Shipyard in 1976.

### Usha Alloys & Steels

Usha Alloys and Steels proposes to issue rights shares of Rs. 18 lakhs and offer the same to the company's existing shareholders at par in the ratio

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of one rights share for every five shares held. The rights issue is proposed to be made some time in the first quarter of 1975. The proceeds of the issue will be utilised for financing partly the Rs 53-lakh overrun in the project cost. The balance would be met by additional term loans of Rs 31 lakhs from the financial institutions and unsecured loans of Rs 4 lakhs.

### Tata Oil Mills

The Tata Oil Mills Company Limited has obtained the consent of the Controller of Capital Issues to the issue of 5,88,629 new Ordinary Shares as Bonus Shares of Rs 25 each by capitalising Rs 1,47,15,725 comprising of Rs 59,78,401 standing to the credit of the share premium account and an amount of Rs 87,37,324 drawn out of the general reserve account. The Bonus shares will be issued to the existing shareholders in the ratio of one ordinary share for every two shares held by them.

For the purpose of effecting this issue, the Register of Members and Share Transfer Books of the Company will be closed from January 21, 1975 to January 31, 1975 (both days inclusive) and the bonus shares will be allotted to those shareholders whose names stand registered in the books of the company as on January 31, 1975. The new shares shall rank for dividend and in all other respects pari passu with the existing ordinary shares of the company and shall be entitled to participate in full in any dividend to be declared in respect of the year ending March 31, 1975.

### NELCO

The operations of the National Radio & Electronics Co. Ltd., during the first six months (Apr. Sept. 1974) of the current financial year, resulted in a sales turnover of Rs 4.03 crores representing a growth of 102 per cent over the sales turnover of Rs 1.99 crores during the corresponding six months of the previous financial year. Sales of individual product groups indi-

cate encouraging prospects as may be concluded from the sales growth of 100 per cent achieved in the entertainment electronic products, 158 per cent in the industrial and professional electronic products and 80 per cent in appliances. The Company's sales performance of radio receivers is all the more significant in view of the 73 per cent growth shown in the first seven months of the calendar year 1974 over the corresponding period during 1973, while the industry recorded a sales growth of 20 per cent only.

### News and Notes

A project for the manufacture of 25,000 dissolved acetylene cylinders has been promoted by Mr S. Nallaperumal and Messrs Tamilnadu Industrial Development Corporation. The government of India has approved this project and have also given consent for the terms of collaboration with Messrs Rivoira, SPA, a reputed group of cryogenic engineers in Italy. The government has also approved Rivoira's participation in the equity capital up to 15 per cent and also payment of a lump sum fee for technical know-how, drawing, designs and documentations. The factory will be located in Ambattur area. There is a global shortage of acetylene cylinders and there are good prospects of exporting to middle east, far east and European countries. Even in the USA, there is shortage of acetylene cylinders. The sponsors have agreed for the export of 20 per cent of their production for a period of five years. Rupee countries such as Poland Rumania, Czechoslovakia and East Germany have no acetylene cylinder manufacturing facilities and therefore there are good prospects of selling these cylinders in those countries also. The cylinders to be manufactured by the proposed company will be of welded type similar to those proposed to be manufactured by Bharat Pumps and Compressors Ltd, Naini, who have proposals to manufacture

10,000 welded acetylene cylinders per annum along with porous mass for the same capacity. The promoters made a study of the demand for acetylene cylinders in the country which according to them currently and in the immediate future will be about 40,000 cylinders annually. Bharats Pumps and Compressors and the Tamilnadu plant can meet the demand besides satisfying the backlog and exporting some quantity also. The promoters feel that the project can be implemented in 12 months time since a lot of preliminary work and study has gone into the project.

A Digital Synchronous Welding Controller developed by Envoys Electronics has now made it possible to have 1500 welds per minute. The unit is being marketed by Envoys (India) Pvt Ltd, B 247 Phase I, Naraina Industrial Area, New Delhi 110028.

The Gwallor Rayon Silk Mfg. (Wvg) Co. Ltd., the country's largest manufacturers of sodium sulphate with production ranging between 42,000 tonnes and 45,000 tonnes annually, has bagged three export orders, one each from Iran, Kenya and Bangla Desh. The order cover a quantity of 8,000 tonnes and are expected to fetch the Company Rs 1.75 crores in foreign exchange. The company is hopeful of obtaining additional orders for further quantities in the near future.

Tata Exports has broken through into the Ethiopian market for commercial vehicle so far dominated by European automobile companies particularly Italian manufacturers, by securing an introductory order for passenger buses from the government owned General Ethiopian Transport Company. Five Tata buses were inaugurated for service recently by the GET which runs the passenger services in the city and suburbs of Addis Ababa, the capital of Ethiopia.

### New Issues

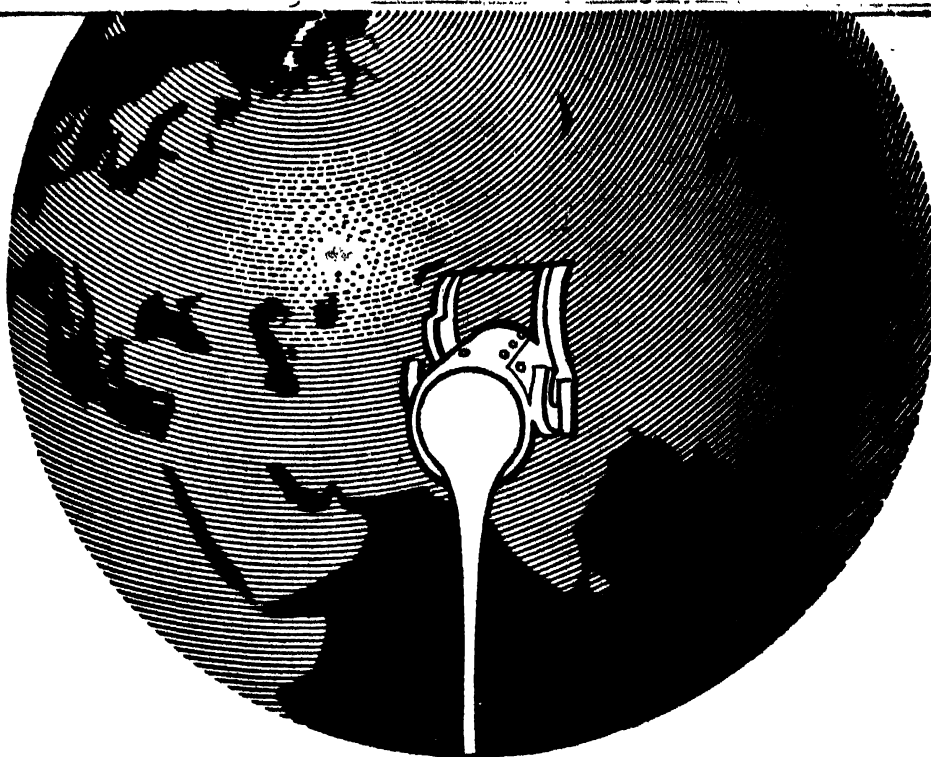
Bharat Bijlee Limited is planning to expand its capacity

for manufacture of motors from 2,58,000 HP to 4,24,000 HP at its existing plant in Kalwa, Thana. BBL's products are marketed by Siemens India Limited and the company has been able to obtain a market share of 12.5 per cent. With the increase in demand for motors and after the completion of the proposed expansion project in June 1976, the company expects to sell its entire production of motors without any difficulty. The total cost of the expansion project is estimated at Rs 250.34 lakhs including working capital requirements of Rs 150.34 lakhs. It will be financed by the issue of convertible bonds of Rs 80.00 lakhs, bank borrowings for working capital of Rs 75.17 lakhs, internal cash accruals of Rs 72.17 lakhs and through other sources of Rs 23.00 lakhs. The public issue is expected to be made during the last week of January 1975.

Amines Plasticizers Limited promoted by Indian Carbon Limited (ICL), will be entering the market on January 20, 1975 to raise Rs 78.80 lakhs comprising of Rs 58.80 lakhs in equity shares of Rs 10/- each and Rs 20 lakhs in 11 per cent redeemable cumulative preference shares of Rs 100/- each, to meet a part of the cost of its Rs 2.25 crores project which is already under commercial production. The subscription list will close on January 30, 1975 or earlier, but not before January 25, 1975. The public issue is fully underwritten. The company's Ethanolamines Plant located at Thana, Maharashtra has been in commercial production since December 1973, and its products, conforming to the international standards have been well accepted in the home and overseas markets. The company has also taken on leave and licence since July 1, 1974 ICL's phthalate Plasticizers plant.

Amines & Plasticizers Limited is the first company in the country to manufacture ethanolamines by a sophisticated continuous process with the technology and





## The world lacked a certain metal until India produced steel

In the ancient world, India was the first to produce carbon steel. Highly priced in world markets, ancient Indian steel was called 'Wootz'. Allusions to iron and steel in the Rig Veda lead to the belief that the Iron Age began in India 3,000 years before the industry was known in Europe.

In metallurgy and other spheres, Indian talents have enriched the world. We at L&T continue the tradition by enriching life through industrial development. We design, manufacture and instal plant and equipment for every vital industry. Steel is one.

Our subsidiary Utkal Machinery Limited (UTMAL) manufactures sophisticated equipment for the steel industry. Technical

know-how comes from Gutehoffnungshuette Sterkrade A.G. (GHH)—a world leader in iron and steel plant design and manufacture. That explains why UTMAL was called upon to manufacture vital equipment like blown oxygen furnaces for the steel plant to be set up by the State Industrial and Investment Corporation of Maharashtra. In addition, UTMAL will furnish the conceptual design and layout for the steel melting shop and manufacture a hot metal mixer, rolling stock, waste gas stacks and two LD converters complete with oxygen lancing equipment.

**LARSEN & TOUBRO LIMITED**  
P. O. Box 278, Bombay 400 001



STP301



## **a renewed commitment on our 20th anniversary**

### **A TIME FOR THANKSGIVING**

The Industrial Credit and Investment Corporation of India Limited wishes to express its appreciation of the trust, confidence, cooperation and devotion, it has received from its shareholders, clients, lending institutions, members of the staff and well-wishers.

ICICI owes its present position in the Indian economy to the support it has received from the Government of India, particularly the Ministries of Finance and Industrial Development as well as the Reserve Bank of India.

ICICI is grateful to the Industrial Development Bank of India, the Life Insurance Corporation, the Unit Trust, The Industrial Finance Corporation of India, banks and insurance companies, which have contributed to its funds and participated in its operations.

ICICI has been able to provide valuable foreign exchange to Indian Industry for accelerating India's industrial development. The Corporation is deeply grateful to the International Bank for Reconstruction and Development for providing sustained financial support and technical guidance.

ICICI also extends its thanks to Kreditanstalt fur Wiederaufbau, U.S. Agency for International Development and the Government of U.K. for the funds provided by them.

ICICI staff has worked with devotion in the cause of development.

The Corporation expresses its sincere appreciation of their substantial contribution to the progress of ICICI.

On its 20th anniversary, ICICI renews its pledge to render greater service to the national economy, the well being of the people and to the country's prestige abroad.

THE INDUSTRIAL CREDIT AND  
INVESTMENT CORPORATION OF INDIA LIMITED  
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know-how obtained from the world-renowned Societe Naphtachimie of France.

Ethanolamines are consumed in substantial quantities by major industries like Fertilizers, Pharmaceuticals, Textiles, Steel, Cement, Leather and is also used in the manufacture of dyes, paints, detergents, soaps and cosmetics. Practically the entire demand from these chemicals being met by imports until the company's plant went into commercial production.

The product thus constitute an important item of the import substitution programme. The company's product dioctyl phthalate (DOP) is catering to the needs of a wide range of PVC processing industries engaged in the manufacture of insulated cables, leather-cloth, footwear, films and sheets for packaging etc. During the first year of its production ended September 30, 1974 the Company's sales aggregated Rs 1.37 crores, on which it earned a gross profit of Rs 33.37 lakhs the company has also earned foreign exchange to the tune of Rs 7.57 lakhs by exporting a consignment of 40 tonnes of Monoethanolamines to a Middle-East country. Barring unforeseen circumstances, the company hopes to pay a reasonable dividend for the year ending September 30, 1975. The expected turnover for the period would be about Rs 4 crores.

### Capital and Bonus Issues

The government of India has allowed 13 companies to raise capital worth over Rs 6.25 crores. Following are the details:

**The Finlay Mills Ltd.,** Bombay, have been accorded consent, valid for three month, to capitalise Rs 40 lakhs out of its general reserve and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every two equity shares held.

**Shri Vivekanand Mills Ltd,** Ahmedabad, have been accorded consent, valid for three

months, to capitalise Rs 9,04,750 out of its general reserve and issue fully paid equity shares of Rs 250 each as bonus shares in the ratio of one bonus share for every two equity shares held.

**The Southern Borax Ltd,** Madras, have communicated to the government their proposals to issue capital under clause 50 of the capital issues (exemption) order, 1969, to the extent of Rs 40 lakhs (inclusive of capital already raised) in the 4 lakhs equity shares of Rs 10 each, for cash at par, out of which shares of worth Rs 19.60 lakhs will be offered to the public by a prospectus.

**The Central Pump Mills Ltd,** Poona, have been given consent for their statement of proposals, valid for a period of 12 months, for issue of securities worth Rs 1,35,00,000 (Rs 100 lakhs in equity and Rs 35 lakhs in secured debentures) to be placed privately with the Unit Trust of India.

**The Karnataka Coir Products Ltd,** Bangalore, have been accorded consent, valid for three months, for the issue of bonus shares worth Rs 4 lakhs.

**The Gold Mohur Mills Ltd,** Bombay, have been accorded consent, valid for three months to capitalise Rs. 10 lakhs out of its general reserve and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every two equity shares held.

**The Pahlaj Bajaj and Co (Novelties) Pvt. Ltd,** Bombay, have been accorded consent, valid for three months, to capitalise Rs 1,51,300 out of its general reserve and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every one equity share held.

**The Eutectic Welding Alloys of India Ltd,** Bombay, have been granted consent, valid for a period of three months, for issue of bonus shares worth Rs 4 lakhs only.

**The Knit Foulds Ltd,** have

been accorded consent, valid for three months, for the issue of bonus shares, worth Rs 1,60,000.

**The Bihar Foundry and Castings Ltd** have communicated to government their proposal to issue capital under clause 5 of the capital issues (exemption) order, 1969, to the extent of Rs 45 lakhs (inclusive of the capital already raised) in the form of 4,50,000 equity shares of Rs 10 each for cash at par.

**The Scooters India Ltd,** Lucknow, a public limited company, having a paid-up capital of Rs 204 lakhs, have been accorded consent to issue further capital of Rs 215 lakhs in equity shares of Rs 10 each for cash at par, to the general public by a prospectus out of which shares worth Rs 5 lakhs will be reserved for allotments to the employees and associates of the company. The proceeds

will be utilised for providing a part of finance required for the project for the manufacture of two three wheeler scooters. The consent is valid for a period of one year only.

**The Paliwal Mini Steel (India) Ltd,** Delhi, have communicated to the government their proposal to issue capital under clause 5 of the capital issues (exemption) order, 1969, to the extent of Rs. 50 lakhs (inclusive of capital already raised) in 5 lakhs equity shares of Rs 10 each, for cash at par out of which shares worth Rs 30 lakhs will be offered for public subscription by a prospectus.

**The Mohita Ispat Ltd** have communicated to the government their proposal to issue capital under clause 5 of the capital issues (exemption) order, 1969, to the extent of Rs 40 lakhs in equity capital and Rs 1,500 in preference capital.

### Dividends

(Per cent)

| Name of the company                | Year ended     | Equity dividend declared for |               |
|------------------------------------|----------------|------------------------------|---------------|
|                                    |                | Current year                 | Previous year |
| <b>Same Dividend</b>               |                |                              |               |
| Rajasthan Spinning & Weaving Mills | Sep. 30, 1974  | 7.5                          | 7.5           |
| India Forge & Drop Stampings       | June 30, 1974  | Nil                          | Nil           |
| Birds Jute and Exports             | March 31, 1974 | Nil                          | Nil           |
| Premier Automobiles                | June 30, 1974  | Nil                          | Nil           |
| Challapalli Sugars                 | June 30, 1974  | 10.0                         | 10.0          |
| Sandur Manganese & Iron Ores       | Dec. 31, 1973  | Nil                          | Nil           |
| <b>Reduced Dividend</b>            |                |                              |               |
| Parshuram Pottery Works            | July 31, 1974  | 9.0                          | 10.0          |
| Trichi Steel Rolling Mills         | Sep. 30, 1974  | 7.5                          | 12.0          |
| Engine Values                      | March 31, 1974 | 9.5                          | 13.0          |
| Cauvery Sugars & Chemicals         | June 30, 1974  | 3.5                          | 11.0          |

# CONSOLIDATED COFFEE LIMITED

**Speech of Mr. M.A. Sreenivasan, Chairman, at the 31st Annual General Meeting of the Company held on 14th December, 1974.**

The five-year review presented with the accounts shows the progress of your Company during the period. It will be seen that the gross income, profit before tax, and profit after tax are all double of what they were five years ago and that your Company's investments in shares and securities have more than trebled. Reserves have registered an increase of Rs. 35 lakhs, after the drawing of Rs. 71½ lakhs for the issue of bonus shares in 1973-74. Your Directors feel sure you will agree that the progress is gratifying.

Although the average crop harvested in the Company's estates has tended to be stagnant over the years, due mainly to extensive new clearings and replantings that have been done in the last five years at a total cost of Rs. 26.50 lakhs, the crops harvested are expected, as a result of these operations, to show substantial increases in future years.

I shall not take your time to speak of the coffee plantation industry in general, its problems and prospects. These subjects have been amply and authentically presented by the Presidents of the United Planters' Association of Southern India and of the K. P. A. and other planting associations at their Annual Conferences which always precede our Annual General Meetings.

I shall also refrain from speaking, except very briefly, about inflation which, since I described it as galloping fast last year is now so uncontrolled that even the usually reserved Reserve Bank has come out with the statement that "price increases during 1973-74 were very large, very rapid, persistent and all-pervasive". Even as we sit here the cost of cup of coffee we

have just taken may rise by a paisa or two, before the end of this meeting—not the price of the coffee so much as of its milk and sugar content.

Very important persons in high authority, including the Vice-President of India, Central Ministers, Chief Ministers and other Ministers of our State have presided over and spoken at the UPASI and KPA Conferences. I have attended these Conferences over the last ten or fifteen years. Some of the earlier ones sounded like soliloquies on one side and sermons on the other. In later ones, however, response from the Government side has been sympathetic and encouraging. I would refer, in particular, to the speeches made at the Conference of the Karnataka Planters' Association in October last by the Hon'ble Chief Minister and the Hon'ble Finance Minister of our State in which they were pleased to give definite assurances of tax relief by way of depreciation as allowed for other industries. I am sure you will all agree with me in expressing our sincere thanks to them for their kind assurances.

In every one of these Conferences I have invariably heard generous words of praise from high authorities for the achievements of planters of the plantation industry. It is no doubt in recognition of these achievements that the Government of Karnataka took the decision to exempt plantations from ceilings and other restrictions imposed by the Karnataka Land Reforms Amendment Act. The industry is grateful to the Hon'ble Chief Minister and his colleagues for this far-seeing and statesmanlike decision—though at the last KPA Conference Shri Devaraj Urs, with due grace and modesty, gave credit for the de-

cision to the Prime Minister, to whom also we are indeed grateful.

While, as I said there was always a chorus of praise for the industry from the Government spokesmen at each of the Conferences, at not a single one of them did one hear anything to indicate that serious thought had been given to the question why and how the industry came to merit the praise.

How did the coffee planting industry come into existence in the State? How did the lovely green hills and valleys of Coorg and the Bababudans come to be clothed with the well-wooded verdure of coffee, pepper and orange? How is it that India's plantation industry has won and retained the first rank in the world for production of tea per hectare, and the fourth rank in the world in coffee? And why on the same good earth, under the same Indian sun and sky and the same capricious Indian monsoon, with the same Indian skills and hands, does our country stand as low as 50th in the world in the production of rice per hectare and 40th in cotton?

The last question is one that calls for deep and anxious consideration especially when it is realised that our farmers have demonstrated that they, too, can attain far higher yields of rice and corn and cotton. In the case of paddy for example, in 1970 the highest yield in demonstration farms in Orissa was nearly eight times and in all-India crop competitions 9.4 times the national average (16.8 quintals per hectare) in that year.

I propose, with your permission, to take some time to speak about these matters.

When you read the history of coffee cultivation and its phenomenal growth in our

State you cannot but admire the way it was nurtured and encouraged by the State's Rulers and the Government, and the wise and generous provisions made in the Mysore Land Revenue Code and in the Revenue Manual, the Department's bible, to attract bold enterprise and investment to tame jungle and transform it into smiling coffee estates. The Code and Manual were among my text books, for it happened that my very first posting, on entering the Mysore Civil Service in January 1918 was to Chikmagalur, were happily my first assignment even as a probationary assistant commissioner was to process applications for Takavi loans from coffee planters who were then hard hit by a serious decline in prices.

The key word in those provisions was "Shraya" meaning improvement, "improvement of land by cultivation", as explained in the Revenue Manual of 1967, "waste lands granted to cultivators who undertook to reclaim the area from jungle and bring it under cultivation upon leases with progressive increasing rents".

An entrepreneur applied for coffee cultivation on a hill side jungle. The land was ordinarily sold by auction subject to an upset price of Rs. 20 per acre (January 1940). It was given on a "guarantee for 30 years" and "in the case of coffee, free of assessment for the first three years, one half assessment for the next two years, and the full assessment of Rs. 1-4-0 per acre from and after the sixth year". No grant was made unless the applicant was able to prove that he can raise the necessary capital for starting the industry—mark the use of the word industry. One-fifth of the area granted was to be planted every year.

A thoughtful additional provision, intended to cheer up the intrepid planter said "the grantee can draw toddy from Bagani or other trees for the making of bread or

ther bonafide domestic purposes".

Is it any wonder that with such inviting attractions and incentives and taxation that is nominal, our State now leads India with 70% of the total coffee production?

The question is, why this glaring disparity in our agriculture's productivity between the yields of rice for food and cotton for clothing on the one hand, and the yields of plantation crops like tea and coffee?

What is the magic of plantations?

I know that I shall be repeating some things I have said before. I am also aware that what I say may readily be dubbed as old-fashioned or dismissed as unacceptable. I shall make no apology for repetition of things that need to be repeated. As for being out of fashion, we know fashions change and often change so far back as to fashions of a past century, as evidenced on the faces of many young men we see around us today.

The root cause for the glaring disparity is to be found in the way land has come to be regarded and treated by our law givers and government. They all recognise that agriculture is India's greatest industry. Yet, with the exception of plantations, which occupy but a fraction of the total land under cultivation, agriculture is not treated as industry is treated. Agricultural land has become the platform, if not the playground of politics, each party vying with and wishing to excel the other in land reforms and reforms of land reforms. This, in spite of the fact that even Pandit Nehru declared years ago that there should be an end to land reforms.

Our nation's leaders constantly exhort us to preserve our culture and traditions. From ancient times till only a few decades ago, land in India that is Bharat was described as 'Sthira' permanent, certain. Deeds of transfer of land affirmed the right of

the purchaser to the "eight fold" enjoyment of the ownership of the land, the trees, waters and minerals therein, above and below the ground. (nidhi nikshepa, jala, tharu, pashanadi, ashtabhoga tejas swamyam) until the sun and moon last (achundrarka).

What is title to agricultural land today? Has it not tended to be a scrap of paper blown about by every political breeze? Investment in land has become the very reverse of 'Sthira'. The river of capital that flowed to it and made it green has dried up or got diverted. The nation's most basic industry has become the biggest investment risk. If you are thinking of investing in land now, do not forget that your status as a land-owner is derecognised. Make sure you do not earn a rupee more than a magnificent 12,000 rupees a year. Be careful not to hit your head against the ceiling. Note that while it was 18 standard acres in 1961, it has since been lowered down to ten. And beware of being branded an absentee landlord. It is a term of abuse. You may live in Bombay and buy five hundred shares in the Mysore Sugar Company and not be called an absentee Sugarlord; or in Tata Steels or Binny's and not be castigated as an absentee steel lord or absentee clothlord, but no, not so if you buy land.

I am sure many of you have wondered, as I have, why there is all this political obsession with land. It is common knowledge that even if all the arable land in India were distributed among the landless there would hardly be an acre for each.

From ancient times it has been the habit of Maharajas and Sultans who invaded and became the new masters of large tracts of land to make gifts and 'inams' at their pleasure. The commonest form of a royal gift was of land that came under their sway. In giving land the Sultan gave nothing that diminished his riches or interfered with his pleasures. "Nothing is clearer

in history", writes Will Durant, the famous philosopher-historian in his great work called "Lessons of History". "than the adoption, by successful rebels, of the methods they were accustomed to condemn in the forces they deposed". Can you think of a better illustration of this lesson of history than the way our present rulers, having deposed Maharajas and Nawabs and condemned their ways, have adopted the favourite habit of their predecessors of making gifts of land?

You will readily admit that the habit has unique attractions. Can you think of anything you can give that is easier, more pleasing and costs you less than giving land that is not yours? Air, not hot, but cool, refreshing air is God-given and free for all. Water, drinking water in particular, is easier promised than provided. It is troublesome to part with cloth, to part with cash even more so. So why not give land, play about with land, take it from the owners, impose ceilings and slash them down, give land as you please, give to the landless, give to political sufferers, give to all whose votes you seek?

Chant the manthra "land to the tiller". "land to the tiller." It is a catchy slogan well coined to please the masses and to grow more votes. But stripped of its populist trappings, and examined closely, to say "land to the tiller" would appear no more respectable or rational than to say, for a change, "cloth to the weaver", or "curry to the cook".

Now, where have these policies led to?

Experienced observers, including political leaders of the status of Shri V. V. Giri, both as President of India, and after his retirement, have pointed out that this exercise of distributing lakhs of pattas of small plots of land is largely ineffective and the ownership of the recipients has, in most cases, been short-lived. Even granting that this may not

happen in all cases, does not the policy lead to capital starvation of agriculture on the one hand and mere subsistence farming on the other?

In my days as a Revenue Officer, and even till a few decades ago, there was much concern over fragmentation of holdings. The accent was on integration, consolidation. The wisdom of this policy was never brought home to me more forcibly than when I was minister for Food in this State. The supply of food to town and city dwellers, whether it is free or rationed, must come from farms in rural areas. The farmer who grows food has to keep what is enough for his family and dependents, and sell or surrender the excess. This excess is called the marketable surplus. Suppose the marketable surplus from a rural area is 20% of the total production in it. If for any reason, whether because of increased local needs or of a scare of scarcity the farmers in that area retain only 10% more for themselves, the marketable surplus at once suffers a cut of 50% and the supply or ration of the urban population is reduced to half of what it was.

One hears a great deal of eloquence about land hunger. Land, after all, is only one of the means, a base of production. You cannot eat land. The expression land hunger is semantic, a figure of speech like, say, cloth hunger, or power hunger. But food hunger is very real and dangerous. "We are living on the edge of a knife", says Dr. Boerma, Director General of F. A. O., about the present global food situation. "Disaster is at our doorstep. Asia is facing the largest food deficit in history." No less an authority than Nobel laureate Dr. Norman Borlugh made the dreadful prediction, very recently, that millions will die in the next 8 to 9 months in countries like India and Bangladesh. He called it "the worst food crisis since World War II" and added, "The deaths in those countries are going to

make the fatalities from starvation caused by drought in the Sahara lands over the last couple of years look like very small numbers."

All of us must earnestly hope and pray that the prediction may not prove true. But does not the situation call for urgent and serious rethinking and revision of our nation's agricultural policies?

It is now nearly two decades since Prime Minister Jawaharlal Nehru declared "not a grain of food will be imported even if we starve". Years later he lamented, "it disturbs my mind more than the Chinese aggression. I often hang my head in shame when I think that a nation with seventy per cent of its population in agriculture depends on foreign countries for its food requirements".

Which are these foreign countries? The U. S. A. the largest exporter of agricultural products in 1972-73, which has less than 5% of its population engaged in agriculture, and countries like Australia, Canada, where land is not politicalised, where agriculture is free and unhampered by irksome laws and levies, and the only ceiling is the sky.

But we need not seek lessons in cultivation from these countries from which we import food. We have in our own land, proof in our plantations, and in our demonstration farms, that our agricultural productivity can rank as high as any country in the world.

Dr. B. R. Shenoy, a distinguished economist and authority on India's food problems asks, "If 7.5 out of every 10 hectares of sown area is under foodgrains and 70 out of every 100 of the working population is engaged in agriculture, if yields from efficient cultivation with the use of modern technology are a multiple of 7 to 12 times the national average yields in the

case of paddy and wheat, if the Government's policy measures are designed to achieve food self-sufficiency and the market deficit in food supply is under 5 per cent of the gross domestic production of foodgrains, how is it that this deficit has defied solution?" "The answer", he writes, "lies in the capital starvation of agriculture. The taste of the neglect of industry is in the pudding of its production. Applying this principle to agriculture, the taste of the capital starvation of agriculture is in the statistics of agricultural production".

At the recent World Food Conference in Rome, Mrs. Judith Hart, Britain's Minister for Overseas Development said that "if the torrent of words flowing out at Rome could be transformed into rice and wheat, the hungry children of the third world might be saved". Likewise it would be true to say that if the incessant spate of our land legislation could have grown paddy, our country would not only be self-sufficient in rice but also have a surplus for export.

Does it not seem unfortunate, indeed deplorable, that ceilings and levies and restrictions are imposed that deny to the growing of staple foods like rice and ragi and basic crops like cotton the freedom given to growing crops like coffee and rubber? True, the export of the latter earns valuable foreign exchange. But does not the import of the former impose a heavy and increasing drain on our country's foreign exchange resources specially at a time when the nation's balance of payments position is causing concern?

Earlier in my speech I asked,—what is the magic of plantations? It is, simply, the magic wand held by Government, the Prime Minister and Central Cabinet, the Chief Minister and his colleagues here, by a blissful wave of which lands upon which crops defined as plantation crops

are exempted from the ceilings and levies, the restrictions and uncertainties imposed by Land Reforms legislation.

How I wish the same magic wand is waved to bring forth paddy plantations and cotton estates! If cotton is blissfully included in the definition of plantation crops, I am confident that Karnataka can within a few years be not only fully self-sufficient but also supply cotton to the mills in neighbouring States. And if by suitable exemption or amendment of the law well-managed estates could be enabled to grow paddy, there would be no need at all for our State to go asking for allotments of imported rice.

I have pleaded with the Chief Ministers and others in high authority for the revival of the 'shraya' spirit to encourage, nurture and improve the cultivation of these essential crops even as our coffee estates have been nurtured and enabled not only to attain high levels of productivity and earn foreign exchange, but also to provide gainful employment and amenities, such as free housing, water supply, medical and sanitary facilities, canteens, creches, to lakhs of well-paid workers whose earnings could be the envy of the hundreds of poor rural workers that daily flock to our cities in search of employment.

In making the pleadings I derived encouragement by the observation of a perceptive Union Minister and a report that the Government was thinking at one time of permitting the corporate sector to engage in efficient large-scale farming. But the melancholy answer I got from the authorities was that while the proposition is economically sound, it is politically impossible.

It is sad to think that political ideologies should come in the way of what is nationally good, and necessary.

I earnestly hope that at a time of emergency and crisis

like the present, political inhibitions and prejudices will be cast aside, and the magic wand will swiftly be waved to banish scarcity and usher in an era of abundance of food and clothing in our land and that Karnataka will take a bold lead in this direction.

I am glad to say that staff and labour relations have continued to be harmonious.

I am sure you will join me and the Board in thanking Mr. K. B. Somana the Managing Director and his team of officers and expressing our appreciation of the excellent work done by them during the year.

To my colleagues on the Board I am most grateful for their valued advice and friendly co-operation.

(This does not purport to be a record of the proceedings of the Annual General Meeting).

## COMPANY NOTICE

### INDIAN ALUMINIUM COMPANY, LIMITED

1 MIDDLETON STREET,  
CALCUTTA 700 016

#### REPAYMENT OF 6½% DEBENTURE STOCK 1970/75

Registered holders of the 6½% Debenture Stock 1970/75 who have not as yet surrendered their certificate(s) to the Company are hereby requested to do so immediately in order to enable the Company to repay the principal amount of the Debenture Stock held by them.

P.K. Pal  
Secretary

7 January, 1975

# KOTHARI (Madras) LIMITED

## A RECORD ACHIEVEMENT : PLANS FOR FUTURE GROWTH



**MR. D.C. KOTHARI**

This is the FIFTH year of the company but the third year of the combined operations of the various units.

During the year under review, the economy of the country was beset with inflationary tendencies, shortage of essential raw materials, power shortages in all parts of the country barring a few States and labour unrest. All these factors considerably hampered the growth of the industrial activity. Added to this, was the policy of curtailment of money supply in circulation announced by the Reserve Bank of India, last year.

Gearing up of agricultural and industrial production appears to be very essential now to curb the inflationary tendencies. Decline in price levels can only be expected with increased production. In this context, the policy of credit squeeze hitherto adopted should be given a fresh look and fresh relaxation should be made on a selective basis.

It is refreshing to note

that at a recent meeting of the Chairman of the nationalised banks, views have been expressed for the need for liberalising the credit squeeze in order to achieve increased industrial production.

The year 1973-74 witnessed buoyant conditions in the share market. In fact, the amount of new capital issues during that period were a record for the previous eight years. There was also a marked improvement in the share prices. However the introduction of legislation by the Government imposing restraints on the payment of dividend, has affected the capital market and many of the new undertakings have not been able to come to the market for issue of their shares. This problem requires serious consideration and it might also be necessary to liberalise the debt equity ratio wherever finances are to be raised by undertaking so that the amount of equity to be raised could be smaller in quantum.

Our country has been able to build a strong industrial base capable of producing anything ranging from consumer goods to sophisticated machineries and we have been able to bridge to a large extent the technological gap that was prevailing at the time of independence. It is imperative that we should strive hard to keep up the tempo of industrial growth in our country, if the economy of the country is to attain the stability that is sought to be achieved in our consecutive Plans.

### A Record Profit:

Viewed in the context of the general industrial conditions that prevailed during the year, the results of your Company for the year ended 30th June, 1974 have been excellent. A record profit has been made.

The Plantation Division has manufactured 19,13,522 Kgs of tea and produced 923 tonnes of coffee during the year. Sales of tea during the year were of the order of Rs 1.56 crores and realisation from coffee accounted for Rs. 66 lakhs. The Curing Works were able to handle and cure 5,370 tonnes of coffee and the income by way of curing charges was Rs 7.44 lakhs, more than double of the previous year.

Last year, tea producing countries realised rather low prices; but there is now a change for the better. The tea prices have gone up to a level almost amounting to 60% increase over the previous year. This is reflected in the price that tea fetched at the Cochin auctions which was Rs 6.51 per kg. in July 1973 and Rs 10.55 per kg. in October, 1974. This trend is still continuing. The reason for this is not far to seek. The price of tea had remained practically static between 1953 to 1973 except to the extent of an increase of about 5%. Tea prices in 1974 now reflect the increase in

commodity prices throughout the world consequent on the increase in oil prices.

### Coffee Exports:

During 1973-74, Indian Coffee exports reached a peak level with an export of 52,688 tonnes and the foreign exchange earned was Rs 46.1 crores. This was made possible because of the bold decision taken by Brazil to increase the price of coffee in the international market last year. This made the consumer countries to pile their stock of coffee by purchasing at higher prices; so much so that Indian coffee was sold at as high a price as Rs 590/- for 50 kg., in the export auctions for Plantation 'A'. Almost all the Indian Coffee for export had been exported before May and there remained only a balance of 10,000 tonnes for export in our country. There has been a downward trend in the world coffee price since May, 1974. But this has not affected the Indian coffee as the major portion of production was exported before the fall in price. It is expected that Brazil will be re-entering on the international scene and it is hoped that she will attempt to maintain the price at an increased level as is the feature with all countries having a monopoly of commodities for export.

Both tea and coffee however are subject to increased costs of inputs and labour wages. To maintain the production and also to participate in a larger measure in the export of these commodities, it will be necessary to regulate any increase in the cost of production.

### Increased Textile Exports :

As regards our Textile Division, the turnover was Rs. 13.11 crores as against Rs 6.20 crores of the previous year. On the export front, we exported cloth and yarn of the value of Rs. 76.40 lakhs as compared to exports valued at Rs. 43.93 lakhs during the previous period.

There was a considerable boom in the export of textiles during the last year but it has



now receded. This is mainly because our yarn and textiles are outpriced in the international markets by as much as 30% to 40% depending upon the counts and variety. Besides, we are also forced with keen competition from various textile producing countries including Japan which has re-entered the business of manufacture and sale of grey fabrics. Pakistan has dropped the export duty on cloth. New textile mills which have come up in Malaysia and Thailand are also emerging as serious competitors. Re-introduction of cash incentives for export of yarn and cloth appears to be very essential if the exports are to be maintained.

The cotton crop during 1973-74 was shorter than the previous year being 63.50 lakhs as against 65.16 lakhs bales. Imports were restricted to only 1.25 lakh bales. This restricted the availability of cotton during the season. The price of cotton continued to increase and reached its peak during July/August 1974. The cotton prices during August 1974 were almost 60 to 80 per cent higher than the previous year. This increase in price of cotton has not affected us

considerably because of the farsighted policy of judicious purchases of cotton at appropriate times. The cotton prices have however, come down by about 30 to 35 per cent from the peak level reached during the last few months.

Whilst the Textile Division made excellent profits during the year under review, its operations continued to be hampered considerably due to inadequate liquidity of funds arising out of the credit squeeze imposed by the Reserve Bank of India. While in physical terms our inventory of raw materials and finished goods on an average, were not significantly different from the one we are accustomed to hold in terms of quantity, the inventories in terms of value were at unprecedented levels.

The Fertilizer Division has done well during the current year despite the power cut for nearly four months achieving a turnover of Rs 3.30 crores. It has programmed to expand the production of Sulphuric Acid from the present capacity of 15,000 to 18,750 tonnes per annum. Negotiations with the bankers for financial arrangements are going on and we expect to implement this as soon as the finan-

cial arrangements are completed.

As you know, this Company was incorporated on 1st July, 1970 for taking over the five companies, viz., Blue Mountain Estates and Industries Limited, Waterfall Estates Limited, Balmadies, Plantation Limited, Kothari Textiles Limited and Adoni Spinning and Weaving Company Limited as going concerns.

One of the primary objectives of this amalgamation was to utilise more effectively the resources of these companies, to provide a steady rate of return to the shareholders and achieve greater financial stability to enable expansion diversification etc.

#### Caustic Soda Plant :

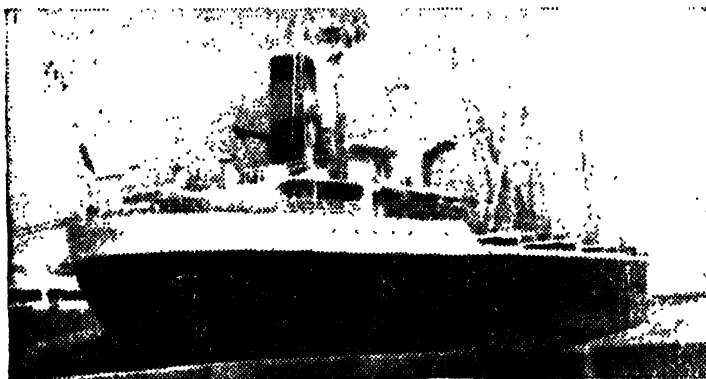
You will recall, in my last year's speech, I had indicated that we were seriously considering going into manufacture of Caustic Soda. I am pleased to inform you that we have made considerable progress with this project and it is now before the financial institutions for consideration. Barring unforeseen circumstances, we expect to go into production by early 1977. The estimated investment is of the order of Rs 15 crores and the gross profit before

depreciation and provision for taxation is estimated between Rs 2 to 2.5 crores.

Coming to the prospects for the current year, I expect the cotton prices to be lower; i.e. as high as last year. Last year was an exceptional year for textiles and for cotton. Tea prices in domestic and international markets are expected to increase. The demand for textiles may again pick up at reasonable prices. In the matter of profits, we cannot expect a repeat performance this year, but it would certainly be much better than in an average year.

In conclusion, I must say that in spite of several odds, the Company has done reasonably well in the fifth year of its existence. This has been due to the co-operation and hard work of all sections of the staff and the workers.

**Note:** Chairman's statement read out at the 5th Annual General Meeting held on 27th December, 1974 at the Company's Registered Office at 20, Nungambakkam High Road, Madras-600034. This does not purport to be the proceedings of the Annual General Meeting.



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## Foreign Trade of India : 1974-75

THE FAVOURABLE balance of trade in 1972-73 at Rs 103.39 crores was followed by an unfavourable balance of trade at Rs 424.32 crores in 1973-74. The imports in 1974-75 are expected to exceed exports by a large margin, thus considerably widening the unfavourable gap witnessed in 1973-74. According to figures for the half-year-ended September 1974, imports exceeded exports by Rs 312.31 crores; extrapolating this trend, it appeared that the trade gap during the current financial year would range between Rs 500 and 600 crores.

The break-up of imports into major heads for the past four years indicated that the bill for raw materials and intermediate goods had increased at a fast rate. Whereas the total value of raw materials and intermediate goods was Rs 654 crores in 1970-71, it was more than Rs 1,304 crores in 1973-74. From all indications, it is expected to be still higher in 1974-75.

In 1973-74, India's exports to Japan had taken the first place followed by the USA, the USSR and the UK. In earlier years, our best customer used to be one of the three countries, namely, the UK, the USA and the USSR. It was for the first time that Japan earned this distinction in 1973-74.

The tables below summarise the foreign trade trends till September, 1974 and indicate that India would need to make Herculean efforts to bridge the gap between imports and exports :—

TABLE I  
Month-wise Imports, Exports (Including Re-exports) and Balance of Trade during the  
Years 1972-73 to 1973-74 (Up to Sept. 1974) (Value Rs lakhs)

| Months                      | 1972-73 |         |         | 1973-74 |         |         | 1974-75 |         |         |
|-----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                             | Imports | Exports | Balance | Imports | Exports | Balance | Imports | Exports | Balance |
| April                       | 13729   | 15413   | +1684   | 16175   | 14486   | -1689   | 33095   | 17596   | -15449  |
| May                         | 13342   | 15381   | +2039   | 16345   | 17359   | +1014   | 30090   | 21366   | -8724   |
| June                        | 12993   | 14037   | +2044   | 18009   | 14179   | -3830   | 34222   | 25367   | -8855   |
| July                        | 15050   | 13924   | -1126   | 20097   | 19996   | -101    | 32891   | 31096   | -1795   |
| August                      | 14636   | 16954   | +2318   | 20295   | 19142   | -1153   | 24728   | 31095   | -6367   |
| September                   | 15327   | 15921   | +594    | 20252   | 22312   | +2060   | 28049   | 25324   | -2725   |
| October, November, December | 38592   | 47448   | +8856   | 74358   | 61699   | -12659  | ..      | ..      | ..      |
| January, February, March    | 63076   | 57980   | -5096   | 106181  | 79207   | -26974  | ..      | ..      | ..      |
| TOTAL:                      | 186744  | 197083  | +10339  | 290812  | 248380  | -42432  | 183075  | 151844  | -31231  |

- Note : (a) Monthly totals may not add up to cumulative figures because of rounding and revisions.  
 (b) Figures for various months as well as for the year 1973-74, 1974-75 (upto September 1974) as a whole are provisional and subject to revision.  
 (c) Figures for the period October to December and January to March were published on quarterly basis during 1972-73 and hence figures have been incorporated on quarterly basis for these two quarters for the sake of comparability.  
 (d) Source : (i) Office of the economic advisor for the figures for July to September 1974.  
 (ii) Monthly statistics of the foreign trade of India vol. I & II for all other figures.

TABLE II  
Imports, Exports (Including Re-exports) and Balance of Trade in Merchandise  
during the Years 1968-69 to 1974-75 (Up to September 1974) (Value in Rs crores)

| Period          | Imports | Exports (including re-exports) | Balance of Trade |
|-----------------|---------|--------------------------------|------------------|
| 1968-69         | 1908.63 | 1357.87                        | (-)550.76        |
| 1969-70         | 1582.10 | 1413.28                        | (-)168.82        |
| 1970-71         | 1634.20 | 1535.16                        | (-)99.04         |
| 1971-72         | 1824.54 | 1608.22                        | (-)216.32        |
| 1972-73         | 1867.44 | 1970.83                        | (+)103.39        |
| 1973-74*        | 2920.91 | 2483.22                        | (-)437.69        |
| April-Sept 1974 | 1830.76 | 1518.43                        | (-)312.33        |
| April-Sept 1973 | 1111.73 | 1074.75                        | (-)369.98        |

\* Figures for 1973-74 and April-Sept, 1974 are provisional and subject to revision.

Source : Monthly statistics of foreign trade of India, published by the director general of commercial intelligence and statistics, Calcutta.

**TABLE III**  
**Break-up of Import into Major Heads during the Years 1970-71 to 1973-74**

(Value in Rs crores)

| Major Heads                                                               | 1970-71                           | 1971-72                           | 1972-73                            | 1973-74                            |
|---------------------------------------------------------------------------|-----------------------------------|-----------------------------------|------------------------------------|------------------------------------|
| (1) Maintenance imports                                                   | 1133.74<br>(69.38)                | 1401.42<br>(76.81)                | 1442.08<br>(80.26)                 | 2068.50<br>(70.82)                 |
| (a) Raw materials and intermediate goods<br>(Excl. metals)                | 654.21<br>(40.04)                 | 778.13<br>(42.65)                 | 790.98<br>(44.02)                  | 1304.51<br>(44.66)                 |
| (b) Components & spares                                                   | 212.80<br>(13.02)                 | 283.29<br>(15.53)                 | 332.34<br>(18.50)                  | 381.78<br>(13.08)                  |
| (c) Metals                                                                | 266.73<br>(16.32)                 | 340.00<br>(18.63)                 | 318.76<br>(17.74)                  | 382.21<br>(13.08)                  |
| (i) Iron and steel                                                        | 147.09<br>(9.00)                  | 237.60<br>(13.02)                 | 217.14<br>(12.08)                  | 242.56<br>(8.30)                   |
| (ii) Non-ferrous metals                                                   | 119.64<br>(7.32)                  | 102.40<br>(5.61)                  | 101.62<br>(5.66)                   | 139.65<br>(4.78)                   |
| (2) Food, cereals & edible products                                       | 242.68<br>(14.85)                 | 169.31<br>(9.28)                  | 128.29<br>(7.14)                   | 528.79<br>(18.10)                  |
| (3) Complete machinery and equipment                                      | 195.12<br>(11.94)                 | 199.37<br>(10.93)                 | 176.42<br>(9.82)                   | 263.87<br>(9.03)                   |
| (4) Essential finished goods                                              | 38.07<br>(2.33)                   | 41.97<br>(2.30)                   | 38.09<br>(2.12)                    | 47.23<br>(1.62)                    |
| (5) Unclassified items including postal articles and special transactions | 24.59<br>(1.50)                   | 12.47<br>(0.68)                   | 11.86<br>(0.66)                    | 12.52<br>(0.43)                    |
| <b>TOTAL:</b>                                                             | <b>1634.20</b><br><b>(100.00)</b> | <b>1824.54</b><br><b>(100.00)</b> | <b>1796.74*</b><br><b>(100.00)</b> | <b>2920.91*</b><br><b>(100.00)</b> |
|                                                                           |                                   |                                   | <b>1867.44**</b>                   |                                    |

\*Figures are provisional.

\*\*Denotes revised figures break-up of which is not available.

Note : Figures in brackets denote percentage of each head to total imports.

Source : Monthly statistics of foreign trade of India, Vol. II—Imports, published by the director general of commercial intelligence & statistics, Calcutta.

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**TABLE IV**  
**Region-wise and Country-wise Value of Imports, Exports (Including Re-exports) and Balance of Trade during 1972-73**  
**and 1973-74.**  
(Value in Rs lakhs)

| Region/country                                                               | 1973    |                               |                  | 1974    |                                |                  |
|------------------------------------------------------------------------------|---------|-------------------------------|------------------|---------|--------------------------------|------------------|
|                                                                              | Imports | Exports including Re-exports) | Balance of Trade | Imports | Exports (including Re-exports) | Balance of Trade |
| <b>Africa</b>                                                                | 16506   | 10112                         | -6394            | 16726   | 10091                          | -6635            |
| Kenya                                                                        | 632     | 550                           | -82              | 1742    | 1012                           | -730             |
| Morocco                                                                      | 391     | 54                            | -337             | 860     | 86                             | -774             |
| Zaire                                                                        | 740     | 45                            | -695             | 1180    | 19                             | -1161            |
| Republic of Sudan                                                            | 4580    | 2071                          | -2509            | 2193    | 1857                           | -336             |
| Tanzania                                                                     | 2795    | 301                           | -2494            | 2897    | 686                            | -2211            |
| United Republic of Uganda                                                    | 113     | 184                           | +71              | 13      | 339                            | +326             |
| Other East African countries                                                 | 1222    | 320                           | -902             | 948     | 131                            | -787             |
| Zambia                                                                       | 2841    | 472                           | -2369            | 3446    | 374                            | -3072            |
| U.A.R.                                                                       | 2887    | 3172                          | +285             | 2590    | 1482                           | -1108            |
| Nigeria                                                                      | Neg.    | 965                           | -965             | 3       | 1124                           | +1121            |
| North America                                                                | 34248   | 30394                         | -3854            | 60883   | 37356                          | -23527           |
| Canada                                                                       | 10761   | 2820                          | -7941            | 11542   | 3078                           | -8464            |
| U.S.A.                                                                       | 23487   | 27574                         | +4087            | 49341   | 34278                          | -15063           |
| <b>Latin America</b>                                                         | 2324    | 428                           | -1896            | 5583    | 1208                           | -4375            |
| Argentina (Incl. Atlantic Coast of Patagonia)                                | 1803    | 77                            | -1726            | 4047    | 642                            | -3405            |
| Brazil                                                                       | 121     | 49                            | -72              | 1088    | 224                            | -864             |
| Peru                                                                         | 312     | 46                            | -266             | 3       | 59                             | +56              |
| Other American Countries                                                     | 20      | 218                           | +198             | 18      | 256                            | +238             |
| <b>East European Countries</b>                                               | 23107   | 46973                         | +23866           | 39278   | 47806                          | +8528            |
| Bulgaria                                                                     | 954     | 1866                          | +932             | 1380    | 1965                           | -585             |
| Czechoslovakia                                                               | 1591    | 4610                          | +3019            | 2653    | 4165                           | +1512            |
| G.D.R.                                                                       | 1916    | 1511                          | -405             | 2483    | 2162                           | -321             |
| Hungary                                                                      | 1492    | 1228                          | -264             | 1082    | 2378                           | +1296            |
| Roumania                                                                     | 1355    | 1594                          | +239             | 1344    | 1516                           | +172             |
| Poland                                                                       | 3624    | 4418                          | +794             | 4576    | 4886                           | +310             |
| U.S.S.R.                                                                     | 11437   | 30482                         | +19048           | 24975   | 28379                          | +3404            |
| Yugoslavia                                                                   | 738     | 1244                          | +506             | 785     | 2355                           | +1570            |
| <b>CAFE Countries</b>                                                        | 40065   | 56805                         | +16740           | 66877   | 73080                          | +6203            |
| Afghanistan                                                                  | 1603    | 1252                          | -351             | 1509    | 1500                           | -9               |
| Australia                                                                    | 3355    | 2598                          | -757             | 4366    | 5039                           | +673             |
| Burma                                                                        | 205     | 436                           | +231             | 7       | 154                            | +147             |
| Bangladesh                                                                   | 346     | 16834                         | +16478           | 1689    | 5873                           | +4184            |
| Sri Lanka                                                                    | 91      | 801                           | +710             | 91      | 979                            | +888             |
| Malaysia                                                                     | 842     | 934                           | +92              | 3209    | 2408                           | -801             |
| Hongkong                                                                     | 194     | 2014                          | +1820            | 167     | 3613                           | +3446            |
| Indonesia                                                                    | 27      | 530                           | +503             | 41      | 2675                           | +2634            |
| Iran                                                                         | 12198   | 2477                          | -9721            | 26758   | 4273                           | -22485           |
| Japan                                                                        | 17853   | 21716                         | +3863            | 25557   | 35513                          | +9956            |
| New Zealand                                                                  | 651     | 825                           | +174             | 821     | 1340                           | +519             |
| Nepal                                                                        | 951     | 3507                          | +2556            | 1299    | 2889                           | +1590            |
| Singapore                                                                    | 283     | 1784                          | +1501            | 971     | 4293                           | +3322            |
| Thailand                                                                     | 551     | 568                           | +17              | 181     | 922                            | +741             |
| <b>Other Asian &amp; Oceanian countries and antarctic and arctic regions</b> | 8429    | 7389                          | -1040            | 28136   | 13901                          | -14235           |
| South Yemen P. Rep. of (Formerly Aden Incl. Protectorate)                    | 98      | 261                           | +163             | 3       | 566                            | +563             |
| Iraq                                                                         | 660     | 1098                          | +438             | 6124    | 1998                           | -4126            |
| Jordan                                                                       | 431     | 250                           | -181             | 892     | 369                            | -523             |
| Kuwait                                                                       | 2552    | 1495                          | -1057            | 7113    | 2086                           | -5027            |
| Saudi Arabia                                                                 | 4484    | 1214                          | -3270            | 13135   | 2584                           | -10551           |
| Dubai                                                                        | 6       | 801                           | +795             | 12      | 2124                           | +2112            |
| <b>European Common Market countries</b>                                      | 57642   | 40772                         | -16870           | 68318   | 59431                          | -8887            |
| Belgium                                                                      | 5104    | 3013                          | -2091            | 6552    | 4386                           | -2166            |
| Denmark                                                                      | 307     | 568                           | +261             | 395     | 1390                           | +995             |
| France                                                                       | 3985    | 4590                          | +605             | 6976    | 4859                           | -2117            |
| Fed. Rep. of Germany                                                         | 17258   | 6228                          | -11030           | 19573   | 8225                           | -11348           |
| Italy                                                                        | 3594    | 4885                          | +1291            | 4908    | 6837                           | +1929            |
| Ireland                                                                      | 1       | 695                           | +694             | 1       | 909                            | +908             |

| 1                                  | 2             | 3             | 4             | 5             | 6             | 7             |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Netherlands                        | 3668          | 3539          | -129          | 5432          | 7086          | +1654         |
| U.K.                               | 23725         | 17253         | -6472         | 24481         | 25839         | +1358         |
| European free trade area countries | 3870          | 2780          | -1090         | 5209          | 3195          | -2014         |
| Austria                            | 296           | 105           | -191          | 304           | 146           | -158          |
| Norway                             | 516           | 265           | -251          | 855           | 461           | -394          |
| Sweden                             | 1893          | 1616          | -277          | 2370          | 1406          | -964          |
| Switzerland                        | 1165          | 793           | -372          | 1680          | 1181          | -499          |
| Other European countries           | 533           | 1212          | +679          | 612           | 1998          | +1386         |
| Finland                            | 261           | 104           | -157          | 410           | 211           | -199          |
| Spain                              | 259           | 397           | +138          | 181           | 1144          | +963          |
| Turkey                             | 12            | 521           | +509          | 20            | 384           | +364          |
| <b>Total of all countries</b>      | <b>186744</b> | <b>197083</b> | <b>+10339</b> | <b>291640</b> | <b>248322</b> | <b>+43318</b> |
| Value of articles under reference  | ..            | ..            | ..            | 451           | ..            | -451          |
| <b>Grand Total</b>                 | <b>186744</b> | <b>197083</b> | <b>+10339</b> | <b>292091</b> | <b>248322</b> | <b>-43796</b> |

Note : 1. Figures are provisional and subject to revision.

2. Totals may not tally with the grand total because of rounding of figures.

Source : "Monthly statistics of foreign trade of India" Vol. I and II brought out by the director general of commercial intelligence and statistics, Calcutta.

TABLE V  
Country-wise Exports (Including Re-exports) during the years 1971-72 to 1973-74 (Value in lakhs of Rs)

| Country                                  | 1971-72       | 1972-73       | 1973-74       | Percentage of each country to total export in 1973-74 |
|------------------------------------------|---------------|---------------|---------------|-------------------------------------------------------|
| Japan                                    | 18227         | 21716         | 35513         | 14.30                                                 |
| U.S.A.                                   | 26308         | 27574         | 34278         | 13.80                                                 |
| U.S.S.R.                                 | 20870         | 30482         | 28379         | 11.43                                                 |
| U.K.                                     | 16870         | 17253         | 25839         | 10.41                                                 |
| German Fed. Rep.                         | 3710          | 6228          | 8225          | 3.31                                                  |
| Netherlands                              | 1476          | 3539          | 7086          | 2.85                                                  |
| Italy                                    | 2422          | 4885          | 6837          | 2.75                                                  |
| Bangla Desh                              | 4297          | 16824         | 5873          | 2.36                                                  |
| Australia                                | 2800          | 2598          | 5039          | 2.03                                                  |
| Poland                                   | 1992          | 4418          | 4887          | 1.97                                                  |
| France                                   | 2421          | 4590          | 4859          | 1.96                                                  |
| Belgium                                  | 2433          | 3013          | 4386          | 1.77                                                  |
| Singapore                                | 1760          | 1784          | 4293          | 1.73                                                  |
| Iran                                     | 1975          | 2477          | 4273          | 1.72                                                  |
| Czechoslovakia                           | 3049          | 4610          | 4165          | 1.68                                                  |
| Hongkong                                 | 1579          | 2014          | 3614          | 1.45                                                  |
| Canada                                   | 3941          | 2820          | 3078          | 1.24                                                  |
| Nepal                                    | 2844          | 3507          | 2889          | 1.16                                                  |
| Indonesia                                | 321           | 530           | 2675          | 1.08                                                  |
| Saudi Arabia                             | 1113          | 1214          | 2584          | 1.04                                                  |
| Malaysia                                 | 1173          | 934           | 2408          | 0.97                                                  |
| Hungary                                  | 1552          | 1228          | 2378          | 0.96                                                  |
| Yugoslavia                               | 2437          | 1244          | 2355          | 0.95                                                  |
| German Dem. Rep                          | 1797          | 1511          | 2162          | 0.87                                                  |
| Kuwait                                   | 1073          | 1495          | 2086          | 0.84                                                  |
| Iraq                                     | 1000          | 1098          | 1998          | 0.80                                                  |
| Bulgaria                                 | 1548          | 1886          | 1965          | 0.79                                                  |
| Sudan                                    | 5180          | 2071          | 1857          | 0.75                                                  |
| Roumania                                 | 1114          | 1594          | 1516          | 0.61                                                  |
| Afghanistan                              | 984           | 1252          | 1500          | 0.60                                                  |
| U.A.R.                                   | 2307          | 3173          | 1482          | 0.60                                                  |
| New Zealand                              | 1029          | 825           | 1340          | 0.54                                                  |
| Switzerland                              | 767           | 793           | 1181          | 0.48                                                  |
| Nigeria                                  | 989           | 965           | 1124          | 0.45                                                  |
| Kenya                                    | 789           | 550           | 1012          | 0.41                                                  |
| Sri Lanka                                | 2124          | 801           | 979           | 0.39                                                  |
| <b>TOTAL (including other countries)</b> | <b>160822</b> | <b>197083</b> | <b>248322</b> | <b>100.00</b>                                         |

Note : Figures for the year 1973-74 are provisional and subject to revision.

Source : Monthly statistics of foreign trade of India published by the Director General of Commercial Intelligence and Statistics, Calcutta.

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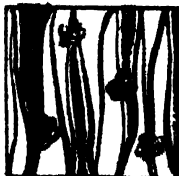
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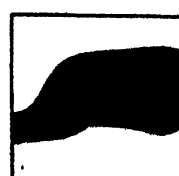
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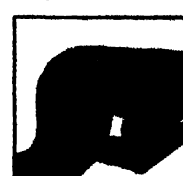
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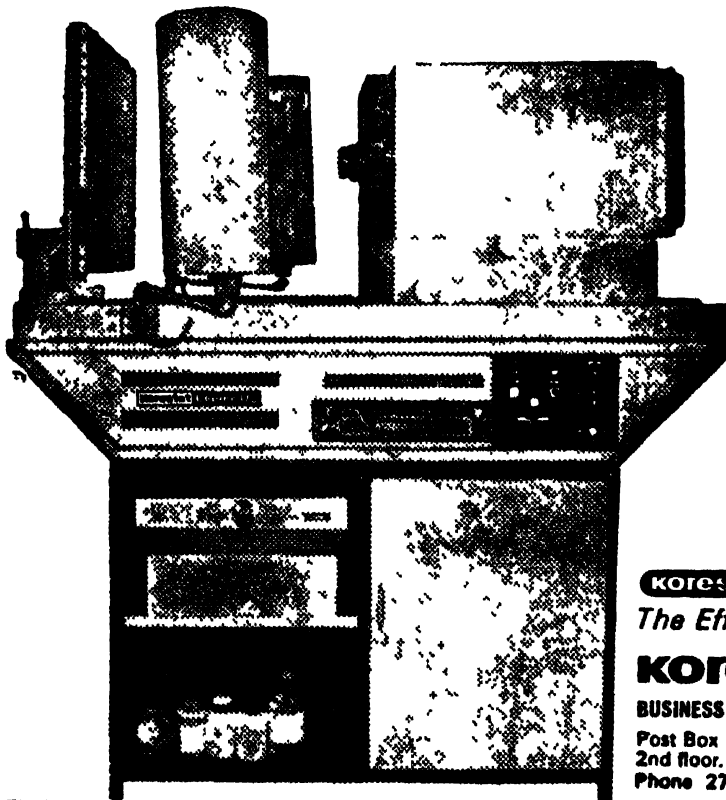
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# By grace of CPI ?

THE DOCKERS have called off their strike, which had lasted four days, following a negotiated settlement of their demands by the government. Accord was also reached on the payment of outstanding

instalments of dearness allowance to central government employees who, consequently, announced an end to the agitation that they had been carrying over this issue. There are more than one reason why compromises could be pulled off in these two cases. It is generally recognized by now that the government could be firm in resisting demands or even in reviewing its obligations which it cannot meet without risking damage to its own finances or to the economy of the country. It is equally clear that it would summon all the strength and resources of the state when forced to deal with strikes which disrupt the functioning of the administration or dislocate services vital to the operation of the economy or the life of the community. Secondly, even employees' organizations — in this case those of the central government staff or dock workers — have come to the conclusion that the resources of the country have already become so overstrained that there would not only be no popular sympathy with or support for sectional interests pressing their claims too stridently but there would even be popular opposition to the government surrendering to such pressures. In the third place, the CPI, which seems to have acquired a vested interest in embarrassing Mrs Gandhi's party or government only up to a point but not beyond it, has apparently thrown in its influence on the side of compromise in the recent negotiations. Significantly enough, Mr S.M. Banerjee was the main spokesman of the central government employees while, in the case of the talks the Shipping ministry had on the dockers' strike, the contribution made by Mr Rajni Patel was openly acknowledged at the time the calling off of the strike was announced.

On the face of it the CPI's willingness to play a constructive part in helping to avert or settle industrial disputes should perhaps be recognized as an agreeable development. All the same certain basic issues of grave consequence for the future of the country will have to be discussed dispassionately in this context. It is no secret that many responsible observers of the national scene are becoming increasingly uneasy over the infiltration of the ruling party by the CPI. Some of the leaders of this party seem to have the ear of the prime minister or otherwise to be enjoying her confidence to an extent which may well be the envy of stalwarts in her own party or the cabinet. Moreover, with every reshuffle of the cabinet, the physical presence of the fellow-travelling elements seems to be growing in some of the vital ministries. There are, for instance, more than one minister of state whose affiliations, not altogether a matter merely of their political past, tend to impart to Mrs Gandhi's administration a complexion or even policy attitudes which seem to belong more properly to the CPI. This is a bad enough situation in itself, but what makes it dangerously worse is that, for some time now, she has been steadily alienating herself and her party from the mainstream of the democratic forces and processes in our national life.

After all, this country has little to boast of for the 25 years or more it has been independent except that it has pledged itself to the preservation and promotion of the civil liberties of its citizens. It has been falling behind in economic development. It has much that is even elementary to achieve in terms of basic social progress. Political maturity remains an aspiration for its people and is far from having become characteristic of its politicians. However, with so much yet to accomplish, it has nevertheless been making a bold attempt to see that the freedom of its people means more than the ending of foreign rule and becomes positive and dynamic in terms of a responsible government functioning through parliamentary institutions and under the rule of law. It cannot be claimed of course that it has been entirely successful in this process, for its rulers, unfortunately, have not always been true to their trust. Not only has the Constitution been amended over and over again to bring about a steady erosion of the rights guaranteed to the citizens by it, but even regular legislation has been stubbornly

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proceeding along lines which are leading to the abridgement of the protection or means of redress which individual citizens must have in a democratic community against arbitrary exercise of state power by the government of the day.

Nevertheless there is still something like a continuing vigilance on the part of the people and it is this which is trying to ensure that India not merely remains the world's largest democracy on paper but also develops as a polity of men and women concerned to prevent any irreversible dilution of the democratic process. It is in these circumstances that more and more of us are beginning to worry that a party which has come to power in terms of a policy or a programme swearing loyalty to the democratic principle could allow itself and its government to be infiltrated by a political force which has other motivations and other goals. It is no small thing that even members of the prime minister's party who are less than four-anna members of even her own version of the Congress party, should lecture publicly to veterans of the historical Indian National Congress on what kind of speeches they should make from the party platform. The saving grace is that these would-be storm-troopers are only too apt to make fools of themselves. Thus, after the truly statesman-like Mr Jagjivan Ram had asked his party-men to be on guard against infiltration or infiltrators, those whom he had evidently made uncomfortable, found it necessary to make out that he was talking only in a general way about "undesirable elements." Who are these undesirable elements, may we ask? Could they be, for instance, men like Mr Ram Subhag Singh who decided recently to move into Mrs Gandhi's fold? It would be a sad day indeed if a political leader of the stature of Mr Jagjivan Ram were to be advised by the Shashi Bhushans of this world whom he should not attack or even if Mr Chavan were to be told whom he should.

Let us not however only grouse and grumble. It is indeed most encouraging that the prime minister entrusted the minister for Agriculture and Irrigation with the delicate task of settling the tricky issue of the arrears of DA for central government employees. Time was when

it was thought that not a swallow would fall but that Mrs Gandhi had willed it so. It was assumed that not only all major issues of policy but also all major applications of policy should at some point or other be handled only by her. This excessive concentration of authority and responsibility has done good neither to her nor to the country. On the contrary, the contribution which even senior ministers could make to the competent functioning of government has been constantly frustrated. It would of course be too much to expect of Mrs Gandhi that she should nurse a successor, but she does have a minimum obligation to the people of this land to ensure that the administration does not have to depend excessively on the capacity, such as it is, of herself alone to govern. It is to be hoped that a beginning has been made in the healthy direction of calling upon senior members of the government to exercise adequately their resources of judgment or administration in dealing with significant affairs of state.

Interestingly enough, at about the same time as Mr Jagjivan Ram was dealing with the DA issue, the Finance minister, Mr C. Subramaniam, who had gone to Washington for an IMF discussion on the oil facility, had also taken advantage of his presence in the US capital to discuss US food

assistance to our country. Until recently only a quantity of 300,000 tonnes of wheat was being talked of as the extent of probable US aid for meeting our food shortage in the current year. Had the American contribution been finally limited to this tonnage, the total international food assistance would certainly have fallen far short of our minimum needs. Fortunately American intentions seem to have been greatly liberalized and news reports from Washington have indicated that Mr C. Subramaniam is in a position to talk in terms of the availability of a million tonnes of wheat from the United States. Thus, with the Agriculture minister in a sense deputising for the Finance minister in New Delhi, and the Finance minister, again in a sense, deputising for the Agriculture minister in Washington, the central cabinet is setting up an extremely promising practice of collective functioning of the cabinet not merely in an abstract political sense but in effective operational terms.

Fortunately, for the first time in some years, the central cabinet has in its economic ministries a fair number of ministers who have much practical good sense as well as capacity for dynamic thinking. The names of Mr Jagjivan Ram, Mr C. Subramaniam, Mr T.A. Pai and Mr K.D. Malaviya among cabinet ministers, and Mr D.P. Chattopadhyaya and Mr K.C.

## Eastern Economist Annual Number 1975

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Pant among ministers of state spring to mind as members of government clearly willing and possibly able to assist the prime minister very considerably in reviving and otherwise improving the economy. With Mr P.N. Haksar in the Plan-

ning Commission we are inclined to be rather hopeful of the economic fortunes of the country. It is however up to the prime minister to get the best out of the human resources now available to her in the government.

strike will in any way help the growers in getting a better price for their produce. With valuable time lost due to the current strike, the consumption of raw jute by the industry is sure to fall making its free market price drop further. The strike thus is bound to hurt the interests of the jute growers. The experience of the season ended in June 1974, had a clear lesson for the workers. Despite the purchase by the jute industry of 7.7 million bales of raw jute and ending the season with carry-forward stocks of 2.2 million bales—highest in the past decade—the raw jute prices did not look up, thanks to the unwise strike of the jute industry in March-April 1974. Surely, the poor jute growers need to be protected from the misguided moves of their so-called friends.

Regarding the demand of the workers relating to increased bonus and dearness allowance, the relevant criterion was the price which jute goods fetched in the international markets. Jute manufacturers had to face stiff competition from synthetics and any attempt to make them uncompetitive in the foreign market was likely to have unfavourable repercussions on both the jute industry and the jute growers. According to Prof. D. P. Chattopadhyaya, some synthetics were 100 per cent cheaper than jute goods even after a 400 per cent rise in oil prices. Also, in the first half of last year, the exports of primary tufted carpet-backing dropped heavily due to the competition offered by polypropylene. It demonstrated clearly that the profitability of the jute industry was dependent upon the world prices which were determined by the interaction of a multiplicity of factors.

Besides synthetics, the industry had to face competition offered by other countries such as Bangladesh. It may be noted that Bangladesh with its superior, automatic machinery was in a position to reduce its manufacturing costs. The Indian jute industry was not happily placed in this regard. In fact, any move to accelerate the pace of automation would be resisted by the workers. The industry was thus on the horns of a dilemma. With oft-repeated

## A strike without sense

THE STRIKE by workers of the jute industry beginning of January 6, 1975, struck a deadly blow to the capacity of this industry to earn increased foreign exchange for our country through enhanced export of jute goods. With memories of the 33-day strike in March-April last year still fresh, this industry seemed to be dogged by an ill-star. Otherwise there was no convincing reason for the workers to undertake a strike so soon. And to crown all, even the Indian National Trade Union Congress (INTUC)—a relatively responsible wing of the trade union movement in this country—had joined hands with other unions in this regard. It may be recalled that the INTUC was opposed to the general strike of last year. In an atmosphere charged with the agitational approach, the INTUC felt, it seems, that it would be left out and might lose some following among jute workers if it did not participate in the strike. So, it had taken part in this strike not because it was sure that this was the right or the only course open to workers but because of tactical reasons.

The chief demands of the workers included (i) increased bonus; (ii) revised dearness allowance as recommended by the experts' committee; (iii) graded scales of pay for time and rated workers; (iv) implementation of the Reddy Award relating to *budli* workers; (v) the setting up of fair price shops in mills; and (vi) the fixing of the minimum price of raw jute at Rs 250 a quintal.

Taking the last demand first, it was necessary to examine how far it would be in the interest of the jute grower, the worker and the industry to fix the price of raw jute at a level 100 per cent above

recommended by the Agricultural Prices Commission (APC). A relentless campaign had in fact been conducted by the jute growers' lobby within the ruling Congress party as well as the leftist parties in favour of increased prices for the fibre. The Vice-Chairman of the CITU had recently suggested to the government that all raw jute purchases should be canalised through the Jute Corporation of India (JCI) and that the mills should not be allowed to enter the market. Even the JCI came under a barrage of criticism by the Krishak Congress which accused it of making purchases of raw jute from the middlemen, placing the growers entirely at their mercy.

A fitting answer to all this criticism had, however, been given by the central Commerce minister, Prof. D. P. Chattopadhyaya, in the Lok Sabha on December 4, last year when any increase in the price fixed by the APC was completely ruled out. The minister rightly argued that the APC represented the best available talent in the country in regard to agricultural economics and it was unthinkable that such a responsible body of economists would lay down a price without satisfying itself about the normal cost of jute cultivation in the major producing tracts in eastern India. Surely, the APC had taken into account the desirable cost-return ratio between jute and paddy, the minimum incentive necessary to stabilise the production of a commercial crop and the secular trend of international prices of jute goods while recommending the statutory minimum price of raw jute. Moreover, it would not be possible to always correlate the price of jute with that of rice, the latter being under pressure of increasing demand through increase in population. In the case of raw jute, the world price of the finished product was a more relevant criterion.

It is highly questionable if the present

demands of nationalisation and suicidal strikes like the present one, the industry found itself extremely handicapped even to perform its legitimate function of managing the manufacturing units efficiently. The government of India could come to its succour through a reduction in export duties but being too fond of its pound of flesh, it took such steps only when the worst had happened. The recent relief provided in the export duty on carpet-backing was a typical example of the government deciding to act when the game was all but lost.

The cynics had even gone to the extent of blaming the industry for the frequent strikes of the jute industry. While deploring the strike of the jute mill workers, Mr. Chakradhari Agarwal, Secretary of the National Alliance of Young Entrepreneurs (NAYE), stated in a letter to the editor of *Financial Express* (January 12, 1975) that the industry was happy over the strike and that it should in its interest organise a strike every year. The jute industry, stated Mr. Agarwal, reaped a great financial benefit from strikes after paying off the compara-

tively negligible fixed overheads. It was a pity that even enlightened persons failed to realise the plight of the industry and did not hesitate to beat it with any stick which came in handy.

In the meantime, 250,000 jute workers in more than 60 mills had caused, through the strike, a loss in production of the order of 3,500 tonnes of jute manufactures a day. The country lost in foreign exchange earnings at more than one crore of rupees a day. In the 33-day strike of last year, our country had lost Rs 40 crores in foreign exchange earnings. The senseless battle between the industry and the workers must come to an end soon in order to cut out the unnecessary loss to the worker, the industry as well as the country. The government must play a fruitful role in bringing about rapprochement between the two parties because it was as a result of its economic policies that prices had risen steeply recently and had caused hardship to the worker culminating in the demand for increased wages and the present strike. The industry was being blamed as well as penalised unnecessarily for no fault of its own,

One industrial establishment—Gedore—alone is said to have been losing export business worth Rs 20 lakhs per month for the last five months solely owing to power cuts. During the early part of the year, shipping difficulties too hampered exports. If despite these handicaps, the industry has been able to show an impressive performance, it is a clear indication of the fact that our engineering goods are finding good acceptance abroad. In fact the recent trends reveal that we have been able to step up significantly exports of several engineering products to even such sophisticated markets as the United States and the United Kingdom.

We obviously ought to attempt a breakthrough in engineering goods exports not only for further diversifying our export trade but also for stepping up foreign exchange earnings, which is absolutely necessary to provide a fillip to the economy. The Engineering Export Promotion Council as well as the Association of Indian Engineering Industry feel that exports of engineering goods can well be more than doubled (to Rs 600 crores) by the end of the current Plan period, given the right policies.

The task that has to be attended to in the immediate future, apparently, is the fullest utilisation of the existing export potential of the engineering capacity in the country. As mentioned earlier, power cuts have been playing havoc with many engineering units. State governments do not seem to have been co-operating with the centre even to the extent possible in ensuring that power is not denied to priority industries, such as those in the export sector. No doubt agricultural operations too require special consideration in the matter of adequate supply of electricity, but the power cuts on industry could have been imposed in a more rational manner than has been the case in many states. The sharp increases in the transmission losses over the last two years in some states, when the power situation has been very acute, again raise doubts about the authenticity of power supply statistics.

The second measure that can be taken in the interest of stepping up engineering

## Engineering exports

THE MAJOR contributions to the impressive increase in our export earnings this year have no doubt been made by such items as sugar, basmati rice and textiles. But the rise in the exports of engineering goods too has not been insignificant. Our overall export earnings during the first half of the current financial year aggregated to Rs 1,518.14 crores, as against Rs 1,074.74 crores during the corresponding period last year. Expectations are that the total for the year as a whole would exceed Rs 3,000 crores. So far as engineering goods are concerned, their exports amounted to Rs 138 crores during the seven months to October—an increase of about 66 per cent over the figure of Rs 82.66 crores for the corresponding period last year. According to Mr B. V. Bhoota, chairman of the Engineering Export Promotion Council (EEPC), these exports may yield during the 12 months to March as much as Rs 260 crores—Rs

10 crores more than the target for the year. Mr Bhoota's optimism is based on the feeling that the shipments of short-delivery items will be considerably stepped up in the next two months.

There is no denying the fact that exports of engineering goods are picking up. They totalled Rs 180.1 crores in 1973-74 as against Rs 150.5 crores in 1972-73 and Rs 125.9 crores in 1971-72. The increase in the current year (1974-75) has of course, been sharpened to some extent by global inflation. Nearly half of the increase in exports this year has resulted from the higher unit-value of various engineering products and the other half by increased shipments of such items, as pipes and tubes, wire ropes, hand tools, bicycle components, diesel engines and electric fans.

The rise in exports of engineering goods this year, though encouraging, could have been even steeper had the industry not been facing severe power cuts and shortages of raw materials. Power cuts in the northern region alone have cost exports worth several crores of rupees.

goods exports in the short run is ensuring supplies of the right qualities of raw materials, particularly steel, to the exporting units at the appropriate time. So far as supplies from the domestic source are concerned, the production programmes of suppliers, the most important among them being the steelworks, ought to be organised in a manner most suited to the requirements of the country. It is difficult to understand why there should be undue delays in the execution of even firm orders. For guaranteed export production, allocations of steel and other metals, in fact, can be made in bulk, say, twice a year. Early during the current financial year, allocations are said to have been made on the quarterly—in some cases even on a smaller period—basis. Recently some improvement has been effected in steel supply procedures. But the situation can be improved a great deal further by attuning the steel production programme to the specific needs of the engineering industry in particular. In the case of imported materials, much depends on the availability of foreign exchange. Close co-ordination between the engineering industry and the import canalising agencies is called for so that the right types of materials can be brought in to the extent possible.

According to the Association of the Indian Engineering Industry, "the current credit squeeze has certainly thrown the exporters into disarray." Some relaxation has been effected in the squeeze recently for export-oriented units, but the problem is said to be still very much there. We can surely follow the Japanese example in this regard where too dear credit money policy is being followed. Scrupulous efforts are made there to see that the export units are not affected by credit stringency.

The grant of incentives is another area which should be periodically reviewed and adjusted to changing circumstances. For instance, steel prices abroad have gone down adversely affecting the competitive position of our exporters. At the same time incentives should not be chopped and changed in such a manner that pending export contracts or commitments are prejudiced. There are

also frequent complaints from exporters that undue delays take place in the payment of cash assistance, import replenishments and duty drawbacks. In the present-day credit stringency, these delays can upset cash flows and impair production effort. They, therefore, ought to be avoided to the maximum extent. There is need also to reduce the number of agencies administering incentives.

Incidentally, the recent scaling down of the stipulation of 25 per cent added value to an exported engineering product to 10 per cent should help exports in the immediate future, though in the long run we have to concentrate more on exports of capital goods in the case of which the value added content is high.

If the target of raising engineering goods exports to Rs 600 crores by the end of the current Plan period is to be accomplished, the capacity of the industry will have to be raised substantially. The Mantosh Sondhi Panel has recently made many useful suggestions in this regard and also in respect of the various other aspects of exports of engineering goods. It, however, needs to be stressed that an organised effort in selected areas should yield much more wholesome results than a diffused effort over the entire industry. The expansion of the major exporting units needs to be facilitated by all means—through simplifying licensing procedures, according of priority in the supply of equipment and machinery to them, etc. The union minister for Industry, Mr T. A. Pai, too has recently done some loud thinking on the issue. One only wishes that he will be able to translate this thinking into concrete action expeditiously.

The impetus that the development programmes of the oil-rich nations are bound to get as a result of the massive inflow of petro-dollars and the tendency on the part of the developed nations to shed some lines of engineering activity owing to high labour costs afford an opportunity for a country such as ours to step up engineering goods exports. Our technology too is particularly suited to most developing nations of Africa, south-east Asia and Latin America. An in-depth study of

the requirements of the developing nations, including the oil-rich countries, should throw up ideas about the strengthening of our engineering industry. Joint ventures in these countries can also be very helpful. So far as the advanced countries are concerned, we can export to them labour-intensive products in much larger quantities than has been the case hitherto.

To facilitate exports not only of engineering goods but also a large number of other items, concerted thought has to be bestowed on the organisation of shipping services. Many exporting units have been seriously handicapped in the recent past by the non-availability of shipping space. There are also several ports or trading areas of interest to us which are not being properly served by shipping lines. To obviate shipping difficulties, we ought to identify expeditiously the major potential export markets for our goods and efforts should be made by our own shipping lines to fill the gaps in a systematic manner.

## Halt the squeeze

THE DEVELOPMENTS in the current busy season so far are in strong contrast with those of the 1973-74 season in the corresponding period and the question is being asked in money market circles whether the adjustments to the new situation arising out of world inflation and an accentuation of inflationary pressures within the country have been completed and the banking system can hope to meet the needs of its constituents in 1975 more comfortably. It is difficult to express any definite view having regard to the convulsions in the money market in Britain, France, Italy and the serious difficulties experienced by industrial giants such as British Leyland and Burmah Shell, in finding the required funds for implementing new schemes and improving the ways and means position. In some other countries such as the USA and West Germany a policy of reflation is thought necessary though there is no confidence that earlier remedies for



combating recessionary trends can have the same effect in the new context. The faith in dearer money is diminishing and interest rates are being lowered in the developed countries.

The situation in India, however, is vastly different and the serious phase of imported inflation was encountered in the second and third quarters of 1974 when there was an unprecedented rise in bank credit for meeting the needs of oil companies and facilitating costlier imports of fertilisers, non-ferrous metals and other items. It is only in the last quarter of 1974, which incidentally coincides with the first quarter of the current busy season, that the increase in demand for funds from industry and trade on the scheduled commercial banks has been less than 50 per cent of the quantum of the same quarter in 1973-74 season with advances rising by only Rs 208.50 crores against Rs 459.57 crores.

While it is not clear what will be the extent of increase in demand with a liberalisation of credit controls, there is evidence to suggest that the industries mainly affected by an inflation in prices in the international markets have got over the hump and the working capital requirements on the new basis have been largely found with a postponement of the implementation of expansion schemes, the acceptance of deposits from the public and even issues of additional capital in equity and preference shares or debentures wherever they are considered desirable or feasible. This is not to say that the credit squeeze has not had a harmful effect in some directions or that particular units are not having special difficulties. There are even now reports about many sugar, tyre, textile and petrochemical units experiencing an acute shortage of working capital and current production has had to be reduced significantly in order to prevent financial bottlenecks from getting worse. With the Tandon Committee completing its investigation of the method of building up inventories by industrial units and the efforts that are being made to evolve a proper relationship between the level of inventories and the volume of turnover it should be possible to find out to what extent the denial of credit is having

an inhibiting effect on production. An expert assessment is certainly needed for formulating scientifically credit controls and making sense of the assurance given by the prime minister recently in Bombay and the repeated statements by the Industries minister that credit controls will not stand in the way of boosting production.

It may however be broadly stated that, with a pumping in of credit of about Rs 100 crores additionally, the difficulties of individual units could be eliminated insofar as working capital needs are concerned. An analysis of the data published by the scheduled commercial banks in 1974 shows that the increase in advances between December 28, 1973 and December 27, 1974 was only Rs 951.26 crores against as much as Rs 1392.36 crores.

What is really significant is not the net decline of Rs 441 crores in the growth in advances in 1974 as compared to the previous year but the absence of any big increase as compared to 1972 having regard to the rise in prices since then. It may, of course, be said that a smaller demand for procurement finance has been responsible for the smaller expansion of aggregate bank credit. But advances for procurement purposes were lower by only Rs 139 crores as compared to the last week of December 1973 indicating that the increase in assistance to borrowers in the priority sectors and others was Rs 302 crores less than in the previous year. Even granting that the credit squeeze exaggerated the deceleration in the growth of advances by Rs 100 crores, the net reduction is still sizeable at Rs 239 crores. This process might have been facilitated by the acceptance of deposits on a large-scale by industrial units which had unfulfilled quotas. Here again, the gap could not have been met fully by the drive for mobilising deposits.

It will not be incorrect therefore to presume that the correction to the new situation has been largely completed in many sectors and that, unless there is a continuance of the galloping rise in prices witnessed in recent months, credit liberalisation may not create serious

problems. It is of course difficult to anticipate what will be the trend of prices for agricultural commodities and manufactured goods in the coming months. But with expectations of bumper rabi crops, a satisfactory cotton crop and a fairly high level of sugar output, the net rise in prices in the current year may not be more than 10 per cent if the drive for boosting industrial production also yields good results. If these expectations turn out to be correct the fresh growth in bank credit in 1975 may not be more than Rs 1,000 crores. As banks can hope to mobilise at least Rs 1,500 crores and reverse the retrograde trend noticeable in 1974 in respect of additions to bank deposits the monetary authorities need not be unnecessarily squeamish and accentuate stagflationary pressures by persisting in unhelpful credit controls and high interest rates.

In view of the disappearing abnormality in certain directions and the general feeling that credit controls should be administered more meaningfully the cash reserve ratio should be reduced from four per cent to three per cent before the middle of February in order to enable banks to avoid borrowing on a penal basis from the Reserve Bank during the peak of the season and help constituents also to meet their commitments when advance tax payments become due in the middle of March. The union Finance ministry should also not hesitate to abolish the levy on the gross income of banks derived through advances. Both these measures have been mainly responsible for the sharp rise in lending rates in the past year. With the retreat from dearer money taking place in western countries and the distortions in the structure of interest rates in this country brought about by an uncoordinated rise in lending rates of even leading banks, the time has arrived for reviewing thoroughly the operation of credit controls and the impact of high interest rates on production and manufacturing costs. If the Reserve Bank can adopt a helpful policy, the hardships experienced by borrowers even when making a sincere effort to boost production, can be easily eliminated.

# FROM THE CAPITAL'S CORRIDORS

R. C. Ummat

## Drugs and Cosmetics Act Amendment • Steel Output • Polish Offer of Assistance

THE HIGH cost of medicines and the growing menace of spurious and substandard drugs have attracted a good deal of attention in the recent past. During the last thirty days alone, the matter came up for deliberation here twice. On December 21 and 22, the Institute of Socialist Studies, New Delhi, organised, in collaboration with the Centre for Socialist Research, Madras, and the Forum of Socialist Studies, Bangalore, a national convention on economic independence and perspective of drugs industry. More recently, on January 17, the Consumer Council of India organised a seminar on the problems of spurious and substandard drugs. The official patronage extended to both these occasions — the seminar of the Consumer Council was inaugurated by President Fakhruddin Ali Ahmed and addressed among others by the union minister for Health and Family Planning, Dr Karan Singh; the convention of the Institute of Socialist Studies had close association of the minister of state for Petroleum and Chemicals, Mr K.R. Ganesh — is indicative enough of the deep concern of the union government over the two issues.

### just concern

The concern, of course, is not misplaced, for despite the fact that the vast masses in the countryside invariably have to do without medicines, even though the manufacture of drugs has recorded an impressive increase from a bare Rs 10 crores in 1947 to as much as nearly Rs 400 crores in 1974, approximately 20 per cent of the production has been found to be spurious or substandard. On many occasions, the drugs and medicines administered to patients have not only proved ineffective but also deadlier than the disease sought to be cured. So far as prices — especially of life-saving drugs — are concerned, they are found to be prohibitive by all except the very affluent fraction of our society. Any concrete programme to eradicate the evil of spurious and substandard drugs

and to bring down the prices of life-saving medicines, therefore, is bound to receive wide support.

In his keynote address to the seminar organised by the Consumer Council of India, Dr Karan Singh indicated that the Drugs and Cosmetics Act was proposed to be changed soon, on the lines of recent amendment to the Food Adulteration Act, with a view to enhancing its penal provisions. The punishment for the manufacture of spurious and substandard drugs might be raised even to life sentence. Further, it was proposed to set up combined food and drugs testing laboratories in all parts of the country.

### welcome measures

The proposed enhancement of the penal provisions of the Drugs and Cosmetics Act and the spreading of the network of testing laboratories, indeed, are welcome measures. But what is needed more is a thorough overhaul of the enforcement machinery. The working of this machinery has left much to be desired in the recent years. The inadequacy of the strengths of the enforcement directorate at the state levels is responsible for this to a great extent. But there are also other too well-known reasons which have eroded the authority of the enforcement staff.

The most effective way of tackling the problem of spurious and substandard drugs, however, is the augmenting of the production of quality drugs and making them available at reasonable prices to the consuming public. Two important steps have been suggested by the above convention and the seminar. One is the bulk production of the most essential drugs — some 150 in number — and drastic reduction in the number of formulations which currently run into over 20,000. The second is the making of packaging simple and less expensive. In view of the capital-intensive nature of the indus-

try, the public sector obviously will have to play a crucial role in augmenting bulk drugs manufacturing capacity.

Opinions, of course, differ on banning of the use of brand names for drugs and encouraging the adoption of generic names as well as on the nationalisation of foreign drugs producing concerns. The latter step was advocated by the Institute of Socialist Studies in its December convention. The use of generic names of drugs on a wide scale, it is pointed out, may create confusion, as has happened in Pakistan recently. This process, therefore, has to be only gradual. The nationalisation of foreign drugs and pharmaceutical companies operating at present in the country, similarly, may create problems for the simple reason that it might adversely affect production which has to be stepped up.

A very interesting suggestion has been thrown up by Dr Karan Singh for the distribution of drugs in rural areas. Instead of the rural folk traversing long distances to the primary health centres, he has suggested that an organisation should be set up from which para-medical staff could take some 50/60 essential drugs, including the well-tested unani and ayurvedic drugs in a kit on bicycles to the rural people. This, he feels, could take care of nearly 90 per cent of the prevalent maladies in the countryside.

### constructive suggestions

In pursuance of the suggestions of the Consumer Council's seminar and the convention of the Institute of Socialist Studies, the minister of state for Petroleum and Chemicals Mr K.R. Ganesh, is understood to have called a high-level meeting of officials, including the Director-General of Health Services, the Central Drugs Controller and the Director-General of Technical Development, by the end of this month to discuss and finalise steps for enforcing sale of drugs at labelled prices to consumers. A thorough review of the pricing formula for drugs is also said to be under way. The government, it is learnt, is thinking of limiting

price control to some 50/60 very essential drugs only so that it can be effectively administered.

The last year's setback to the production of saleable steel is expected to be more than made up during the current financial year. In the nine months to December last, the five integrated steel plants at Bhilai, Durgapur, Rourkela, Jamshedpur and Burnpur yielded an output of 3.536 million tonnes, which was higher by 300,000 tonnes compared to the production in the corresponding period of 1973-74. The 1973-74 production — 4.353 million tonnes — had fallen short of the previous year's output by 440,000 tonnes. This year, the five steelworks may yield nearly five million tonnes of saleable steel — a record output. This optimism is based on the fact that for the seven successive months since May, the monthly average output has exceeded 400,000 tonnes. In December, it touched 425,000 tonnes. The December production would have been higher had the Durgapur unit's blooming and merchant mills not been undergoing capital repairs.

All the integrated steelworks have been showing improved operations this year. Even the Burnpur plant has registered significant increase in production — from 23,000 tonnes in May to as much as 42,000 tonnes to December. The December output at Burnpur has been the highest since this plant was taken over by the union government nearly two and half years ago. Plant-wise production of saleable steel during the first nine months of the current financial year has been: Bhilai 1.236 million tonnes; Durgapur 385,000 tonnes, Rourkela 568,000 tonnes, Jamshedpur (TISCO) 1,058 million tonnes and Burnpur (IISCO) 290,000 tonnes. During the whole of 1973-74, the output had been as follows: Bhilai 1,682 million tonnes; Durgapur 377,000 tonnes; Rourkela 736,000 tonnes; Jamshedpur 1.2 million tonnes; and Burnpur 358,000 tonnes.

The increase in output this year has resulted from a significant improvement in the supply of power as well as petroleum products. Railway transport to and from steel plants too is said to be much better. The labour situation also has improved considerably. But the supply of coking coal and refractories is understood to be still causing some anxiety. To ease the situation, while imports of refractories are being planned on a priority basis, close liaison has been established between the departments of steel and coal to ensure adequate supplies of coking coal. Concerted attention is also being paid to the maintenance of plant and equipment.

Production of hot metal at Bokaro

too is picking up fast. In December, it was of the order of 74,810 tonnes — nearly 91 per cent of the rated capacity.

This year's encouraging trend in the outputs of all the steelworks have raised hopes in the steel ministry that the target of raising the overall production of saleable steel to nearly 10 million tonnes by 1978-79 would be accomplished. At present, the five integrated steel plants producing saleable steel have a capacity to yield 6.5 million tonnes (8.9 million tonnes ingot steel). The Bhilai project is being expanded from 2.5 million tonnes ingot steel to four million tonnes. Bokaro would have been expanded by 1978-79 to yield 4.75 million tonnes ingot steel. So the capacity would have been augmented by the end of the current Plan to about 15.15 million tonnes ingot steel, equivalent to 11.9 million tonnes saleable steel.

### production build-up

Taking into consideration the production build-up envisaged at Bhilai and Bokaro after the commissioning of their expansion schemes, the ministry feels that about 8.8 million tonnes finished steel production can well be expected in 1978-79 from the six major steel plants. The electric arc furnaces are anticipated to yield by then another at least one million tonnes. Including the output of these furnaces, production of saleable steel this year may exceed 5.5 million tonnes.

The country, thus, is expected to attain the goal of overall self-sufficiency in mild steel by 1978-79. Some imports of certain categories of steel, of course, may have to be effected even then. But correspond-

ingly there would be some categories whose production would be in excess of demand. This excess production would be exported.

The Deputy Prime Minister of Poland, Mr Jan Mitrega, who is here to attend the second session of the Indo-Polish joint commission on economic, trade, scientific and technical cooperation — the first session of this commission was held in Warsaw in November 1973 — has offered a wide range of assistance for developing our coal, shipping and fishing industries as well as scientific research. He has also indicated that his country was interested in importing from here larger quantities of both traditional and non-traditional items, particularly textiles, engineering products and leather goods. Indian goods, he is understood to have told the first meeting of the joint commission on Monday, enjoyed a good reputation in his country for their appropriate levels of prices, quality and delivery schedules.

The Indo-Polish trade, which was anticipated to go up to Rs 200 crores in 1974, however, might show an improvement of about 70 per cent over the 1973 figure of Rs 84.7 crores. Though the target could not be achieved, the increase in trade in the last calendar year is considered satisfactory. This year the trade relations between the two countries are expected to receive further fillip with the Minerals and Metals Trading Corporation and the Electronics Trade and Technical Development Corporation opening their offices in Warsaw.

## *Eastern Economist 30 Years Ago*

JAN. 30, 1945

Exactly one year ago when the country lay dazed in the grip of intense political frustration and an unprecedented economic crisis in the shape of acute famine and inflationary conditions, eight industrialists from Bombay, who were apparently doing some hard and sober thinking, sprung upon the country their first memorandum on a national economic programme, which has since come to be known as the Bombay Plan. The first memorandum at once caught the imagination of the country by its sweep and daring and attracted widespread attention all over the world. Truly it could be said that the memorandum set the pace for economic thinking in this country and imparted to it direction and purpose. But the first memorandum had only set the problem of produc-

tion in its correct proportions and economic bearings while the crucial question of the structure of planned economy — in short, the question of distribution, the role of the State and the organization of the economic system — were purposely left out for a later manifesto. It is true that ends and means are not easily separable even for purposes of economic analysis and the procedure of the Bombay planners in first setting out the targets or ends before the means could be seen in the totality of their relationships, was slightly unfortunate. For it gave many unconstructive and carping critics a convenient handle; and especially those who had not the competence to study the Plan at a technical level could be led away with such sloganized attitudes that the Plan was intended to make the rich richer and the poor poorer.

## POINTS OF VIEW

# Assault on the principle of first mortgages

S. Narayanaswamy

THE SICK Textile Undertakings (Nationalisation) Bill, 1974 has been passed by parliament and is intended to convert into government property the several sick mills taken over. In doing this, the owners of the sick mills are to be paid quite measly compensations—which is presumably some kind of punishment meted to those who failed to manage the mills properly. However, making payments which leave the owner with a sense of overall deprivation is to fail to recognize their having taken the trouble or risk of entrepreneurship. This might make them stay away from similar industrial promotions in future, considering that queer and unpredictable developments have, in many cases, landed some mills in losses and not necessarily identifiable inefficiency. The meagre compensations proposed can only be counter-productive of entrepreneurship.

What is important and crucial are the priorities accorded to payments of dues by the sick mills. In the first instance, amounts due to the National Textile Corporation and the state-level textile corporations, where such exist, are to receive their dues. Other payments made by banks after the take-over are to get similar priority.

### low valuations

It is after these payments are made that the financing institutions which are mostly state-level finance corporations and which have lent money long-term on the first mortgage of the assets of the sick units, are to be paid their dues. The low valuations fixed for the sick industries makes the totality of such payments look rather expropriatory.

But when first mortgage-holders are by a sweep of the special statute to be made low priority recipients you throw the concept of first mortgage to the four winds. What are the criteria that the term-lending institutions adopt for giving term-loans to industries when what they dole out is in fact public money? First mortgage is the most fool-proof way of lending money—and only 30 per cent of the market or invoice

value of assets is lent—which normally left abundant cover for the institutions.

It is now learnt that, in several cases, the institutions which have with praiseworthy diligence built up reserve funds over the years and indeed decades, are now being called upon to write off their reserve funds consequent on their being paid meagre or nil amounts out of the first mortgage loans advanced by them to the sick mills.

### woe-begone state

This will abridge, where it does not cripple, the capacity of term-lenders to be of use to local industries which have, thanks to the woe-begone state of the capital market, started leaning more heavily on term-loans to finance their projects. The government of India at the highest level seems to hold the view that institutions can afford to write off huge sums—while the concept of First Mortgage can go by the board. This is an erroneous and short view to take because what is important to examine is what is the area of industrial financing undertaken by these corporations and how would the contraction in their already none-too-plethoric resources affect their capacity to help industries.

In the case of Tamil Nadu, the Tamil Nadu Industrial Investment Corporation has served the industrial community very well, functioning as a public joint stock company from the very beginning and handling term-financing in a creditable way. In the last one year, the TIIC has extended the area of its operations spectacularly, as can be seen from the table given alongside.

The amount disbursed in April/Nov. 1974 (8 months) was Rs. 470 lakhs against Rs 180 lakhs in the same period last year—an increase of over 160 per cent over the previous year bespeaking both the quickened pulse of entrepreneurial effort and institutional support therefor.

It does seem grossly unfair that in the overweening zeal for nationalization of sick mills, basic concepts as to property and institutional usefulness to the entre-

preneur should be disregarded. The advances made to the three textile units in Coimbatore which are under take-over amounts to about Rs 2 crores in all. Out of this, a sum of Rs 160 lakhs represents the amount that the TIIC is called upon to write off. This is the outcome of the altered status of the TIIC as residual creditor of low priority, thanks to the Bill. This will wipe out its entire reserve fund of Rs 1.52 crores built up over quarter of a century and encroach on the paid-up capital of TIIC for the balance. The capital of TIIC is held by government of Tamil Nadu (60%), by IDBI (25%), by government of Pondicherry (5%) and by LIC and nationalized banks (20%). TIIC is spelt out here only as a case-study because there must be other state finance corporations as in Andhra, Gujarat and Maharashtra which are placed in an equally infelicitous position—and they must feel a similar sense of expropriation. The institutions being government-sponsored or owned may not care to agitate the matter nor let off a horrendous squeal but the government of India need not wait for such open remonstrances before reviewing the whole question as to whether it is either financial statesmanship or an act of prudence to weaken institutions whose utility and proved capacity to act as

### TIIC Operations

| Particulars                                         | April to November |      |
|-----------------------------------------------------|-------------------|------|
|                                                     | 1973              | 1974 |
| No. of applications received                        | 178               | 993  |
| Amount of the applications (Rs in lakhs)            | 823               | 2842 |
| Amount of the assistance sanctioned (Rs in lakhs)   | 335               | 886  |
| Amount disbursed (Rs in lakhs)                      | 180               | 470  |
| Percentage of assistance to small-scale industries  | 28                | 45   |
| Percentage of assistance to units in backward areas | 54                | 48   |

pulse-quickeners of industrial build-up has now been acknowledged on all hands.

It would be callousness to hold the view that reserve funds are built up to be written off at the behest of the central government or to say that these bodies can afford the loss. It is doing an injustice as much to potential industrial promoters—who are frequently and rhetorically appealed to—as to the institutions that are called upon to confront these losses.

There is a peculiar irony in the fact that the last two years have been years of unprecedented boom for the textile

mills—robust as well as sick. The Tamil Nadu Textile Corporation reported a profit of just under Rs two crores for the last financial year as a result of the operations of the sick mills under its care. If the mills had continued under private management, they would perhaps have shown equally good if not better profits, which would have enabled them to clear the dues in major part to the TIIC. On more than one occasion, the TIIC was on the brink of enforcing its mortgage rights through foreclosure and sale, which would have got them back their full money but the state

government's anxiety to give a chance to the mills to work even under the umbrella of default of dues to the TIIC, by reason of the employment implications, made the institution hold over any such drastic action. What is now happening is a churlish way of repaying them for the consideration shown by them to the sick units.

In view of the adverse financial repercussions of the Bill on institutions, would the government of India re-examine the relevant provisions of the Bill in the interests of the growth of development banking in the country?

# Economics of coal-based fertilizer plants

N. Mahalingam

THE NEED to explore the possibility of producing fertilizers increasingly on domestic sources of coal is strongly felt. An acute shortage of naphtha in the international market, coupled with very high prices, presages a critical period for the fertilizer industry. The demand for naphtha during 1976, taking into account the needs of the different plants either operating or under construction or to be set-up, is projected to be around 3.5 million tonnes and may even go up to 4.27 million tonnes by the end of the fifth Plan. Of this, a sizeable quantity will have to be imported at a price which we can hardly afford to pay. Having realised the limitations in the use of naphtha, the Planning Commission recently has accepted the new strategy for the establishment of coal-based fertilizer plants.

The fertilizer industry in India started using different feedstocks—electrolytic hydrogen, gasification of wood, natural gas, lignite, coke, coke-oven gas, refinery gas, fuel oil, naphtha—to produce nitrogenous fertilizers depending upon the development in the fertilizer technology and supply positions of the feedstocks. In the early stages the industry started with electrolytic hydrogen and gasification of wood. Later natural gas was used and due to limited availability, other feedstocks like coke and coke-oven gas were used. At present, naphtha occupies a prominent place as the chosen feedstock. It is expected that naphtha will lose its position with the development of additional capacity in the country. The

future of naphtha availability is limited and it is expected that even if the refining capacity is developed to a level of 39 million tonnes by the end of the fifth Plan, there would be a deficit in the availability of naphtha to meet the requirements of the fertilizer industry. This condition necessitates the need for diversification in the use of feedstock with an emphasis on self-reliance.

It is therefore appropriate that the Planning Commission has accepted that coal is a useful source for the production of nitrogenous fertilizers chiefly ammonia. Apart from the considerations of self-reliance, the use of coal may provide additional advantages in terms of employment potential in mining, transport, etc. In a country where there is abundance of labour, providing more employment opportunities to hundreds of thousands of people will have a positive impact. Secondly, in the context of steep rise in the price of crude oil and consequently other petroleum products, the economics of the manufacture of fertilizer may also tend to favour the use of coal which is available in plenty in our country. Thirdly, there is tremendous saving in the total foreign exchange in a coal-based plant.

The Planning and Development Division of the Fertilizer Corporation of India as early as in 1966 indicated the danger of the shortage of naphtha and pleaded for alternative feedstocks, chiefly heavy fuel oil, and also pioneered the idea of coal-based plants. A good deal of spade-work undertaken for a coal-based

plant in 1964 itself was however given up due to some unknown reason. Apart from wasting nearly Rs 2 crores or so, the decision made at that time deprived the country of the chance of becoming the leader in the coal-based fertilizer industry.

Lately the government has seriously felt the necessity for establishing coal-based plants in the country. Three coal-based plants are under implementation at Talcher, Ramagundam and Korba. The plant at Talcher with a capital investment of Rs 140 crores, one-third of it in foreign exchange, will produce annually 495,000 tonnes of urea. Techno Export of Czechoslovakia, Montedison of Italy, Koppers and Lurgi of West Germany will supply necessary equipments. Similarly units at Ramagundam and Korba will produce individually 495,000 tonnes annually. Plants at Talcher and Ramagundam are likely to start commercial production by January 1976 and plant at Korba may go on stream by the end of 1978.

The Planning and Development Division of the FCI has prepared feasibility reports for three more coal-based fertilizer plants in the country. The sites selected for these plants are Margherita in Assam, Gidi in Bihar and Kamptee in Maharashtra. Dr S.K. Mukherjee, director of FCI is of the opinion that our plans for fertilizer production will have to remain flexible so that "in the medium-term a change-over from petroleum feedstocks to coal is ensured". According to his estimation, during the

## POINTS OF VIEW

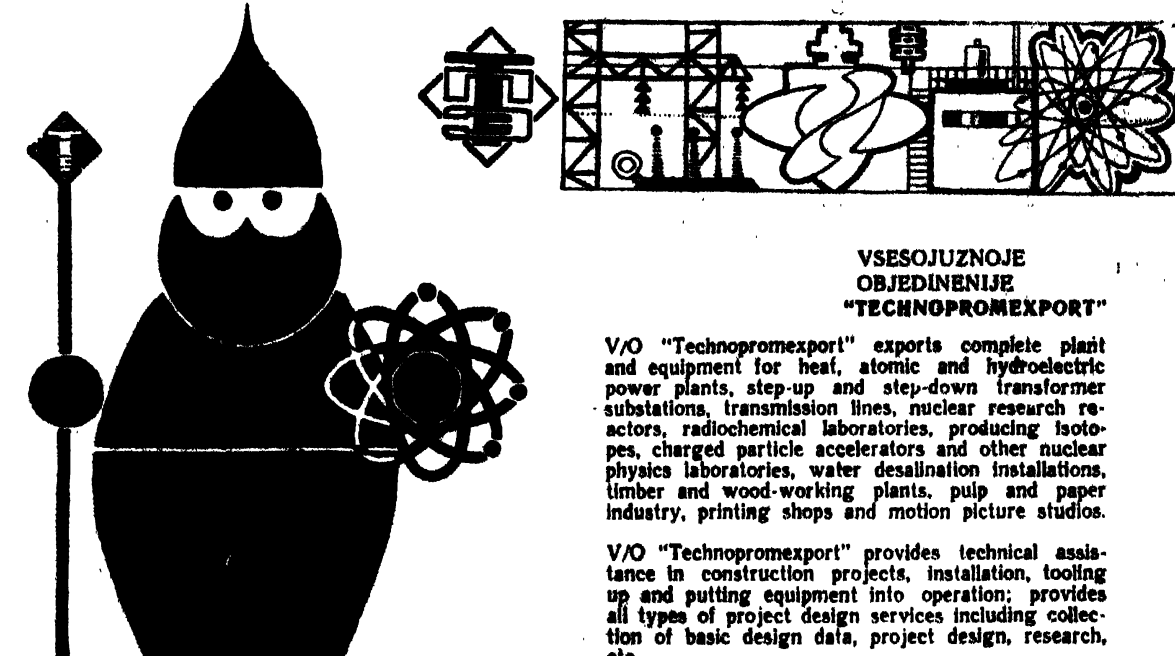
sixth Plan period the demand for nitrogenous fertilizers would increase to 12 million tonnes and the attainment of this increased capacity would necessitate the setting up of 15 plants based on coal, each designed to produce 1500 tonnes of ammonia per day.

As the country has nearly 50,000 million tonnes of noncoking coal reserves, producing 30 million tonnes per annum additionally to meet the requirements of these 15 plants at an average of two million tonnes of coal per plant per year would not be a difficult task. The situation is such that there is no alternative to massive investments for coal-based plants as international market conditions would permit us neither to import nitrogenous fertilizers nor foodgrains to match our requirements. The utilisation of coal poses a serious challenge and it is hoped that the experts through their concerted action would meet the challenge and develop the technology of coal-based plants.

Despite the fact that fertilizer plants based on coal would appear to be most

suitable from the point of view of self-reliance, there may perhaps be limitations in planning substantial further capacity on coal to meet the immediate requirements. In the first place, there is the problem of transport particularly when the volume of coal that goes into the manufacture of fertilizer is larger than the quantum of fertilizer produced. Second, the supply of coal in adequate quantity and at proper time depends mainly on the development of new mining facilities which would involve longer time schedule and high capital investment. Third, technical experts feel that fertilizer plants based on coal may have to face a lot of constraints such as high investment, large maintenance costs, increased operation costs and severe down-time. Further, the technology of direct gasification of coal has not been developed in India. Pollution is another area which needs careful attention by experts. Finally, it may be pointed out that West Germany and Britain, known for abundant deposits of coal, have not yet succeeded in economically operating coal-based fertilizer plants.

The production of nitrogenous fertilizers with coal as the basic feedstock requires innovations. The technology of coal gasification for ammonia production has not been developed appreciably in our country. Since the type of coal available in our country is of low grade with medium to high ash content, the problem that the fertilizer plants will face is that of dust in the gas. The process of filtering and removing the dust is complex which our scientists will have to perfect. In the USA, the Office of Coal Research (OCR) has invested millions of dollars over the past 20 years in intensive research on coal gasification and has made remarkable advances in gasification processes. We should avail ourselves of the most recent US advances in coal-based fertilizer plants. The government should not hesitate to come forward with a scheme of developing the research in the field of gasification of coal through financial and other assistance from abroad. If the technology of coal gasification develops, ammonia plants based on coal will reduce the fertilizer gap to a large extent.



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# In and around Pacific Asia—I

V. Balasubramanian

AT THE Kuala Lumpur office of Pan Am where I had gone in the third week of December last to re-confirm my reservation on a flight from Bangkok to Tokyo which I was to take some days later, a communicative young man at the ticket counter advised me to make sure then and there of my reservation for the return journey from Tokyo as well. He warned me that, if I left it to the last, I might find it difficult to get a booking for this journey on any of the five days preceding New Year Day, since all of those very many international flights out of Japan in various directions by different airlines were already almost fully booked. It was as well that I accepted his suggestion for, on Christmas day, when I was leaving Tokyo for Hong Kong, I found Pan Am's wide-bodied jet chock-full of Japanese tourists, largely male and mostly

still clearly have nearly enough money to spend on a proper celebration of the traditional rituals of the new year. This is primarily because of a certain principle of minimum security for the wage-earner which seems to be an in-built feature of the employment scene in Japan. Although production has been cut in many areas of industry and there have been a number of cases of individual businesses closing down, the 40 million Japanese men and women in regular employment have been largely spared the harsher afflictions of retrenchment or lay-off and consequently the grosser penalties of downright unemployment. The axe has fallen mostly on over-time work or part-time employment of school boys or housewives. This means that, while earnings familywise may have suffered reductions the number of people thrown out of

Consumer resistance, in other words, was mainly selective in nature. Winter clothing, furniture, electric appliances and gift articles were moving rather slowly. Even so, trade circles were not unhelpful of clearing the stocks of such items once they went on discount sales after the new year-eve shopping was over.

## Japanese eat better

Years of prosperity have trained the Japanese to eat better and better. This is a trend which is not easily reversed. Hence, although food prices have been rising steeply, the average Japanese has preferred to spend more on food even at the cost of having to spend somewhat less on a few other luxury or semi-luxury goods, or on purchases which could be deferred or delayed. This attitude on the part of the Japanese consumer has naturally affected the textile industry which, incidentally, has also been having a difficult time in overseas markets.

Rather more spectacular has been the adverse impact of consumer resistance or indifference on the colour television industry in the case of which domestic sales have declined by about 28 per cent in comparison with sales in 1973. The psychological shock to this industry probably is greater than the physical or financial setback, for this is the first time since colour television sets began to be marketed in 1960 that there has been a year-to-year decline in sales. All the same, it is a fact that the industry did manage to sell nearly five million sets to domestic viewers in the course of 1974 and, although Matsushita Electric Industrial Company, Japan's biggest colour TV-maker, began trimming production by 10 to 15 per cent from May onwards, it was not till the very closing weeks of the year that shops in downtown Tokyo seemed to have started thinking in terms of discount sales or announcements offering colour TV sets for 200 US dollars.

Actually, despite the sharp slump in the growth of the GNP from a well-established average of more than 10 per cent over a period of years to minus 0.2 per cent in 1974, the Japanese landscape presents a mixed picture rather than an appearance of general gloom. For instance, Japanese steel has continued to enjoy a

# WINDOW ON THE WORLD

in their late twenties or early thirties, on pleasure boat in the week ahead.

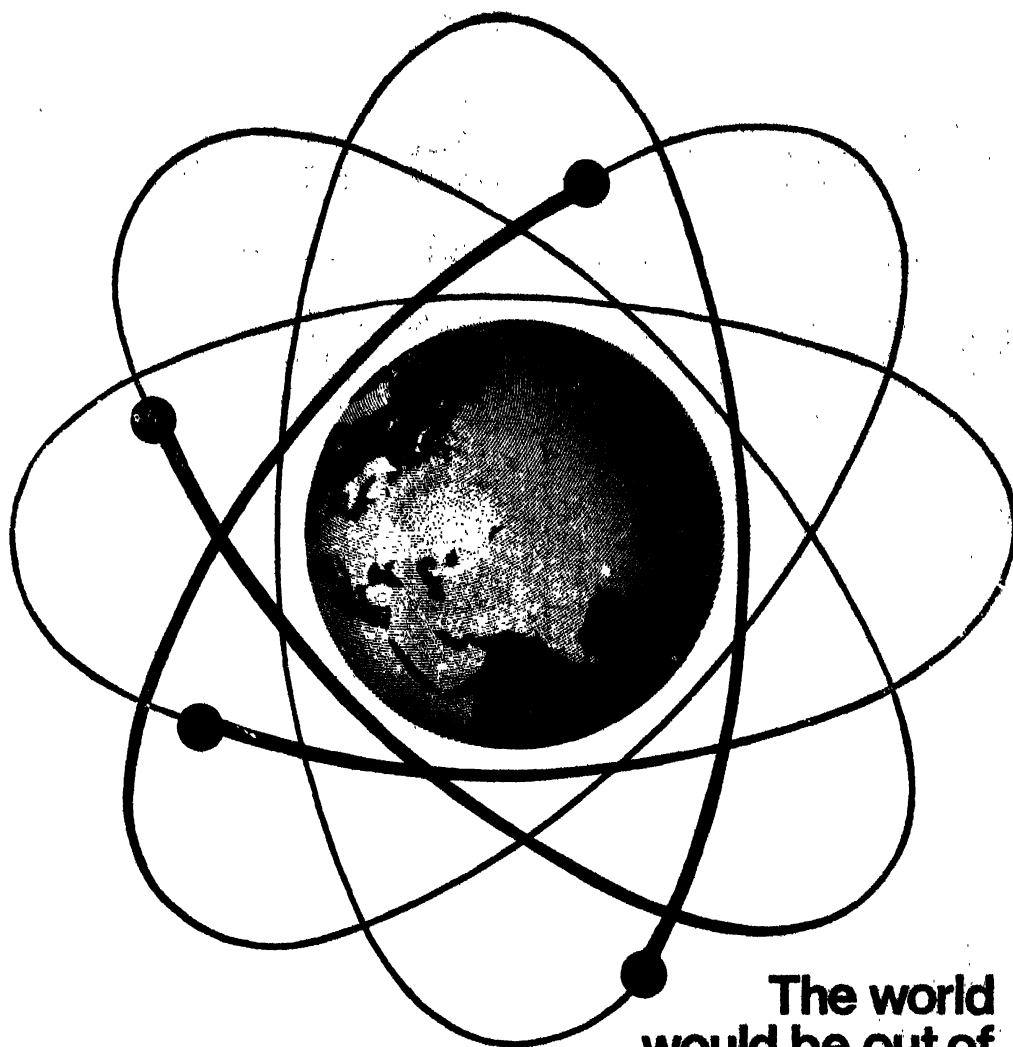
I must say that, having earlier spent a few days in Japan, I was not surprised at this. For all the talk that there had been of that country's nil or negative economic growth in 1974, it had been clear enough on the streets of Tokyo that lots of Japanese still had lots of cash to enjoy themselves with as they entered the New Year of the Rabbit leaving behind the old Year of the Tiger.

Battered as their economy is by the high cost of imported oil and the general inflation complicated by the excessive increase in food prices and recession in some of the basic as well as many of the growth industries, the Japanese people

regular employment has been kept to the minimum. As a result, the economic and social strains and stresses of Japan's stagflation have been considerably mitigated.

Again, the bulk of the community's purchasing power, normally available for spending on essential or even semi-luxury goods, has been largely spared. Although leading department stores in Tokyo were complaining that they were doing poorly in the year-end sales, many of them still expected their turnover to be at least 10 per cent higher than in the comparable period of last year. Although prices had gone up by at least 20 per cent over the year, items such as food articles, soap and other goods for every-day household use were still showing fairly good sales.





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its element if India  
had not generated  
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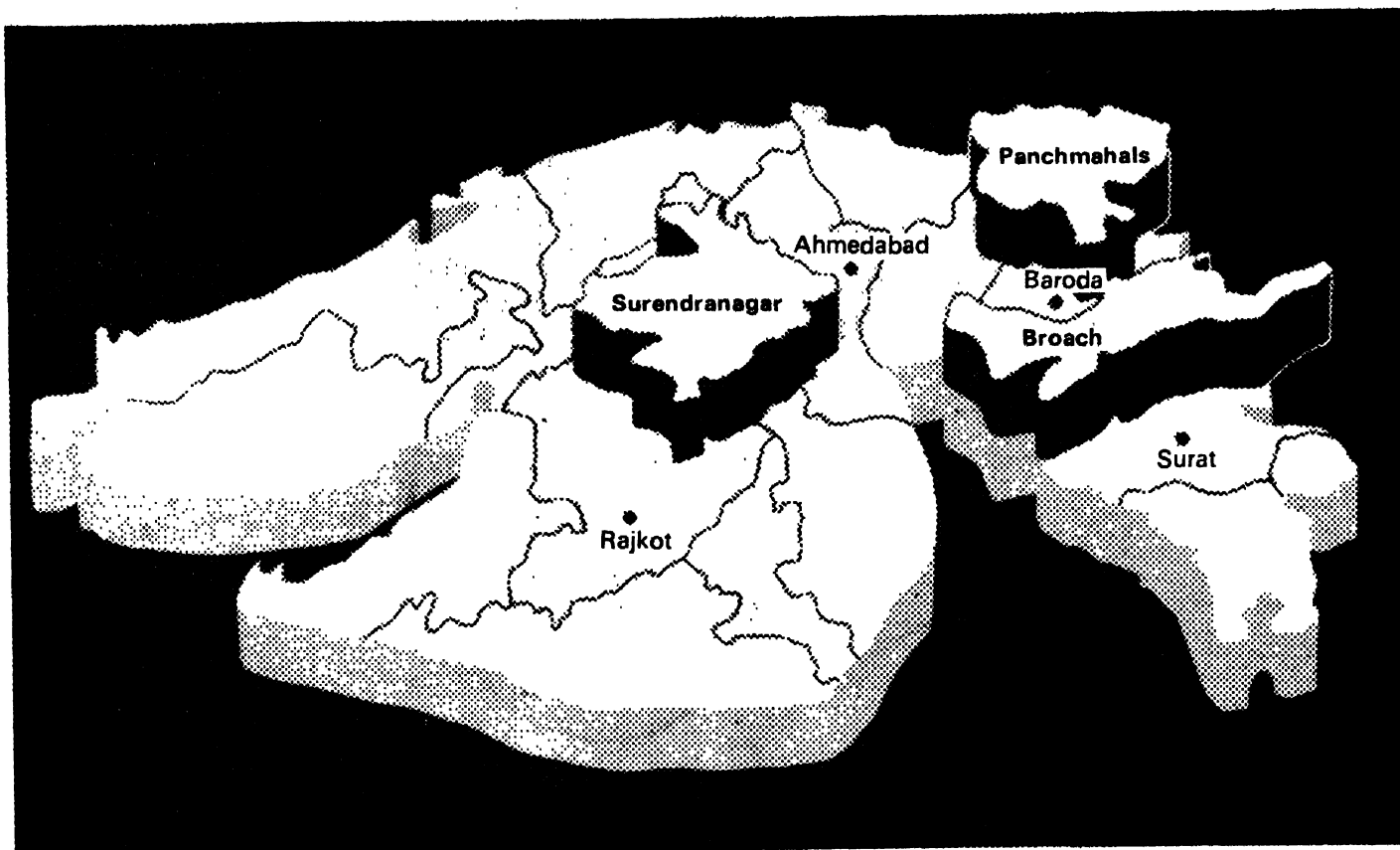
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very strong overseas demand, thanks to its stubborn competitiveness and there is no sign that the steel industry is about to lower its long-term sights or even cut down on its expansion programmes for the immediate future. Again, although many Japanese manufacturers are complaining of a profit squeeze, thanks to rising labour costs or the higher prices of imported raw materials, the decline in business spending has been confined largely to a reduction in inventories or a deferment of plans for investment in capital goods. Evidently current production particularly for export has been and is being protected as much as possible. In some cases, however, it has been extremely difficult or even impossible to manage to achieve this. With house construction costs having nearly doubled in two years, housing starts have sharply slowed down over the last twelve months. Again, there have been cases of shipbuilders cancelling orders on their books wherever possible, because rising wages have made nonsense of the cost estimates on which they had quoted their prices.

### darkest patch

The darkest patch on the Japanese industrial scene, however, is the current state of the automobile industry. It was estimated recently that the annual production of fourwheel vehicles in Japan would amount to 6.56 millions in 1974, marking a decline of 7.4 per cent from the output in 1973. A large part of the reduction in output is of course due to the slump in the world automobile trade. As for the domestic demand, it is not yet clear to what extent the increase in gasoline prices which has been of the order of roughly 50 per cent in the course of 1974 has been responsible for the fall in the offtake of automobiles. It is claimed, however, that the consumption of gasoline has declined by 15 per cent following the increase in its price.

By and large, then, the position seems to be that Japan has not exactly been reduced to penury in spite of the stagflation it had gone through in 1974. What has happened is that a spectacular process of economic growth carried through a number of years has been abruptly halted. This has naturally created several problems—some serious, but most of them of a transitional nature. Since the world economy itself is not in too good a shape, it will not be easy for Japan to compress this period of transition into a year or even two, but what is important is that the Japanese economy is probably in a much better position than most other industrially advanced economies to recapture the growth process earlier rather than later. In fact there appears to be

a public consensus in Japanese government and business circles that the Japanese GNP should start picking up in the second quarter of 1975. This would of course assume that there are no grave disturbances in the international political or economic situation and that countries such as the United States and West Germany would follow reflationary policies.

### containing inflation

For the moment, however, Japan would itself rather choose to concentrate on bringing down the rate of domestic inflation. Here the tide is at least not in an adverse direction. While inflation was of the order of an annual rate of 28 per cent for the greater part of 1974, it came down recently to around 12 per cent on a month-to-month basis. Nevertheless, Japan's top economic policy-makers seem determined to continue to treat inflation as the nation's economic problem number one while considering initiatives for the new year. For instance, on December 24, the Japanese government announced that its selling price of wheat would be frozen at the current level for the fiscal year 1975 starting in April. On the agenda of the high-level cabinet meeting at which this decision was taken was also the question of deciding the price policy for other commodities such as tobacco and salt as well as increasing utility rates. No conclusions were arrived at on these points on that occasion but it was disclosed that the Finance minister, Mr Masayoshi Ohira, had been instructed by the prime minister to study a plan to impose an overall freeze on the utility rates.

There, however, seems to be some measure of agreement between the Finance minister and the Director-General of the Economic Planning Agency, Mr Takeo Fukuda, who also holds the prestigious office of the deputy prime minister, that some increase in utility rates could not be avoided if adequate revenue resources were to be secured for the 1975 budget and the public services were to be maintained in a sound financial position. Mr Fukuda however seems to be keen on limiting the increases to the minimum possible so that the basic anti-inflationary strategy may not be impeded. Subsequent reports state that in the course of later discussions the Japanese government has decided to postpone by varying periods pending increases in postal and telephone charges as well as in cigarette prices charged by the state monopoly. The general aim of Japan's continuing anti-inflationary programme seems to be to ensure that the consumer price index does not rise above 12 per cent over 1975,

thereby consolidating the gains achieved in recent months in combating tendencies towards anything like a runaway inflation.

Should the first quarter of the new year develop along lines that give confidence to the economic policy-planners that their projections regarding the behaviour of consumer prices are likely to hold good, monetary and financial policies may thereafter be expected to move towards a cautious reflating of the economy. In fact it is now being hopefully assumed that the back of inflation would be broken by the beginning of the second quarter of the year and that, from then on, the economy could resume its interrupted business of growth. Even Mr Fukuda, who has tended to be rather conservative in his anticipations of resumed economic growth, is now reported to be inclined to think of planning for an increase in the Japanese GNP at a rate of 4.3 per cent for the year 1975 as a whole. This would mean of course that the Japanese economy will have to grow at a rate somewhat higher than this in the later part of the year since it is not likely to start moving up in the earlier months of 1975.

### resumption of growth

Japan's prospects of resuming growth a few months hence in relatively less inflationary conditions seem to be reasonably good. For one thing, as *The Economist* dollar index of world commodity prices shows, prices of industrial raw materials have gone down by 32.3 per cent in the course of 1974. It is true that, as against this, food prices have gone up by 28.9 per cent, but the world grain outlook at the beginning of 1975 is such that some, and perhaps a substantial, reduction in food prices could be looked forward to in the course of this year. It is also possible for Japan to assume, as many other major importers of oil are apparently doing, that prices will not rise further and may even fall at least slightly in the course of 1975.

A great deal would depend of course on the success which government and industry are able to achieve in regulating wage increases. It has been estimated that, at the negotiations due in May, workers would secure an average wage increase of 16 per cent, in addition to one to three per cent increase in the form of other benefits such as bonuses and certain allowances. Simultaneously, projections regarding productivity assume an improvement of about five per cent. Japanese industry seems to have reconciled itself to these prospective increases in its costs and there is indeed a feeling that some augmentation of purchasing

power in the domestic economy could be more advantageous than disadvantageous to the recovery of production and business spending on capital stock.

At the same time a long and close look will have to be taken at the possible situations Japan's export industries may have to face. For instance, it has already been established that the shipbuilding and the textile industries cannot afford any further appreciable increases in costs if they are to stay in the export business. In fact many of Japan's competitors in the world textile trade believe that, after the spring wage increases in Japan have been negotiated, its textile manufacturers might find it rather difficult to hold their own in overseas markets. There is also some evidence that firms in the electronics industry have already started in terms of planning for the shifting or dispersal of their production facilities, taking advantage of the relatively low labour costs prevailing in places such as Singapore.

The big question is how soon capital spending by business would revive and gather volume. The *Sumitomo Bank Review*, in its issue for January 1975, takes a rather dim view of the probabilities. It says:

"As for business spending, the chill of a changing climate is keenly felt. Business profits are squeezed by material price increases and long term tight money policy, as well as by production curtailment. Furthermore, business is in for harder times, for it is facing such problems as the restriction of oil consumption and a low industrial growth rate. The move to go back on capital outlays will spread throughout all but steel and electric industries. Overall, the outlook is for a poor recovery of business spending through 1975."

### a dim view

The Review has also noted that (1) domestic demand does not have strong recuperative power as in years past, as a result of inflation's unusual inroads on the real purchasing power of consumers and a slow-down in consumer spending; (2) more businesses than expected are stretching out productive spending for plant and equipment on account of the continued decline in total demand; and (3) business inventories are going to be trimmed for a longer period of time than expected earlier.

A recent issue of Mitsubishi Corporation's *Tokyo Newsletter* is also rather subdued about prospects for the next

business term. It suggests that an improvement in the external environment cannot be expected for some time to come although some countries, such as the United States, West Germany and Britain, are beginning to modify their economic policies because the business down-trend has reached serious proportions. According to it, many vexing factors lie ahead, such as the oil confrontation between the producing and consuming nations, the signs of a re-emergence of the food problem, the re-cycling of oil money and developments in the Middle East situation. As regards the Japanese domestic economy, the point is made that the situation is such that it is difficult yet to expect an easing of the restraint policy. The squeeze on corporate financing is expected to tighten and it is strongly feared that business will be further depressed. It is pointed out that there is a mountain of problems such as the future of the balance of payments position which continues in the red, the problem of securing and stabilizing the supply of raw materials and problems revolving around the restriction of industrial competition in connection with the proposed revision of the anti-monopoly law.

### concession to partners

Although responsible leaders of the Japanese business community may be quite conscious of the problems the government has in resorting to deflation immediately, Japanese industry and trade will certainly be disappointed if action is delayed too long. For instance it is now being argued increasingly frequently that the fact that the United States and Germany have been easing interest rates and are also otherwise moving in the direction of reflating their respective economies is making it more and more difficult for Japan alone not to relax its dear money policy. In fact the monetary weapon has been used in Japan less as a means of dealing with the domestic inflation problem than for moderating Japan's export drive as a concession to its major trading partners who have become sensitive to the aggressive Japanese presence in overseas markets especially at a time when their own economies are being squeezed by stagflation.

Consequently, it is now being pointed out by Japanese trade and industry that, since the industrialized countries in the west are initiating less stringent monetary policies for the purpose of reviving economic activity, it has become proper for Japan also to keep pace with them. That this contention is beginning to have some effect became obvious in the last

week of December itself when the Bank of Japan informed commercial banks that it was raising its monetary ceiling of their loan volume increases for the first quarter of next year for the first time in more than two years. As a result, the top 13 banks would be allowed to increase their total lendings in the first quarter of 1975 by about 5.3 per cent over the rise for the first quarter of 1974. Although it was denied on behalf of the Bank of Japan that this move represented a slackening of the credit squeeze, the commercial banks take it that the mild easing of the protracted credit restraint is now on its way.

### budgetary discipline

Broadly speaking, the Japanese government had been relying more on fiscal restraints than on monetary curbs to cool down the over-heated Japanese economy. It follows that it is in the fiscal area that the Japanese business community would expect to see major signs of reflation. The immediate prospects in this respect are however not too bright. In the last week of the old year the Diet had to pass a record supplementary budget for fiscal 1974 for a sum more than twice that for the previous year's supplementary budget. As a result, the total government spending during the year ending March 31 this year would be 25.7 per cent over that in the year ending March 1974. Interestingly enough—the Indian analogy will be obvious—most of the additional appropriations were required to finance pay raises for government employees or subsidies to local governments. This would suggest that the government will have to stick to a certain degree of austerity while planning its budgetary policy for fiscal 1975. Already it has been decided to postpone the start of new long term public utility projects until fiscal 1976.

Nevertheless, however firm the prime minister may be on making the budget for the next year as stringent as possible, it may not be possible to avoid certain expenditures. For instance, there is a strong demand within the government itself that sufficient funds should be allocated for public works projects closely related to the people's daily life, such as constructing new sewage systems, during the next fiscal year. It is also being assumed in a general way that the government will have to go in for fiscal measures designed to revive house construction. Meanwhile, the ministry of International Trade and Industry is asking for fiscal and monetary measures calculated to provide incentives for a recycling industry and to help develop

a marketing system for recycled products and, as a first step it has recommended a substantial appropriation in fiscal 1975 for the establishment of a "clean Japan centre" to help in formulating a long-range recycling programme and development of recycling industries and technologies\*.

It has been estimated that more than 1.3 billion tonnes of waste materials would be generated in Japan in the next twelve months. It is therefore considered urgently necessary to organize the utilization of this huge quantity of waste, both as part of an anti-pollution problem and as a complementary part of the Japanese industry's basic orientation towards turning natural resources into products of utility for the community. Indeed, despite the difficult times through which it has been passing, Japanese industry has been investing huge sums in anti-pollution equipment. During the 12-month period ending this March, over one thousand billion yen (US \$3.3 billion) will have been spent on improving the environment. As a by-product there is a bloom in the manufacture of anti-pollution equipment. Mitsubishi Heavy Industries, the largest single manufacturer in this field, have orders on their books for the fiscal year 1974 for 88.3 billion yen, a sum in excess of the total value of all the orders for all other companies during the previous 12-month period. Side by side with catering for this burgeoning demand in the home market Japanese manufacturers have also started exporting advanced anti-pollution technology. At this rate the manufacture of anti-pollution equipment may well become one of Japan's more important growth industries in the foreseeable future.

## oil politics

In its external activities or relations, Japan, both government and business, would probably choose to maintain a low profile in the immediate future. While the Miki government has agreed to participate in the west's oil-sharing plan and the prime minister has indicated that his country would contribute to the oil conservation strategy of the major petroleum importing countries by cutting down its consumption by three per cent in the course of 1975, the Foreign minister, Mr. Kiichi Miyazawa, has made it clear that Japan is not

interested in any confrontation between the OPEC countries and their costumers and that the Japanese government looks forward to a solution of the oil price issue through consultations and co-operation between the producers and consumers of oil.

Broadly speaking, official overseas economic policy is likely to be geared to cultivating commercial or other ties with Australia, China, the Persian Gulf states and the countries of Latin America which are considered to be of increasing importance to Japanese business. As regards the east or south-east Asian region, Japanese official thinking still seems to be in the throes of a reappraisal although a year has passed since the fiasco of the Tanaka goodwill visit which brought to the surface so much anti-Japanese sentiment in Thailand and Indonesia. The Japanese government, however, would still like to cultivate its economic association with the countries in this region but it is at the same time anxious that it should not do anything which has the appearance of economic penetration.

## the question of aid

On the question of aid, however, the Japanese government seems to be determined to maintain a positive or even an aggressive view of what it considers to be right and proper. It is just possible that there is even some increase in the Japanese interest in assisting economic development in east or south-east Asia, but Japan may insist more and more on aid-receiving countries themselves doing much more for improving their own lot particularly through stringent population control and vigorous food production programmes. This should be of some interest to our country, especially as more than one prominent Japanese, influential in the government, business and public life of his country, have gone on record to the effect that they firmly believe that the Indian government has really no option but to introduce compulsory vasectomy if this country is at all to lick its population problem. Incidentally, Japan is cutting down its rice production by a million tons on the grounds of plentiful stocks even as Mr T. Mitzukami, president of the Japan Foreign Trade Council, is saying that a bilateral Japan-US food stocking system could be set up as one effective method of creating a global food stockpile.

As for Japanese business, the basic expansionist urge is very much there, particularly with regard to overseas trading. Nevertheless there is realistic

appreciation of the limitations inherent in the situation. The oil-sharing plan, or oil conservation, for instance, may impose some restraint on Japanese industry, which is so overwhelmingly dependent on energy in the form of imported oil. Again, the recession in the industrialized countries of the west and the sharp shrinkage in the purchasing power of major oil-importing economies have made the Japanese realize that the best they could hope for in 1975 is for the Japanese share of international trade to grow not less fast than the aggregate volume of her trade itself might increase.

## Mitsu investments

At the moment, however, neither the Japanese government nor Japanese business is at all happy about Japan's foreign trade being in the red. In the period January-October 1974 the total value of Japan's exports had amounted only to US \$44.5 billion as against imports totalling US \$51.5 billion. This is an imbalance which Japan would certainly endeavour to correct in the coming year. Here the trading activities of the Mitsu group, even in the difficult year of 1974, may be briefly noticed as an indication of what could be expected if conditions in the new year are even slightly more favourable for the expansion of the Japanese economy. During 1974 Mitsu established the Japan-Peru Petroleum Company Limited in partnership with trading companies and oil refineries. This firm concluded two investments and projects agreements related to Peruvian oil and copper development projects. Mitsu won a contract for supplying Syria with communications facilities on a large scale. It is promoting natural gas development projects in Northwestern Australia where it established the Mitsu Gas Development (Australia) Proprietary Ltd in 1973. In 1974 this Japanese business house joined British and Australian interests in initiating the exploitation of vanadium deposits in western Australia, and in the same year it set up the International Agro-Forestry Development Corporation in the Philippines. The Mitsu group is currently constructing a large chemical complex in Iran and has also concluded an agreement with Petromin, the Saudi Arabian state-owned petrochemical company, for the exploration of non-ferrous mineral resources in that country. Finally a US \$42 million contract has been concluded for the supply of an ethylene plant to Poland.

At the turn of the year it was reported in the Japanese press that Tokyo Shibaura Electric Company (Toshiba),

\*The Miki government approved on January 11 a budget for fiscal 1975 which raises government spending by 24.5 per cent. Public works spending will be stepped up by 2.4 per cent, while housing loans will be liberalized. The Finance minister described the budget as neutral in its effect on business activity—ED.

Japan's oldest and second largest electrical equipment manufacturer, had secured an order for two 55000 kw geo-thermal power generators and three 60000 kw water power generators from the National Power Corporation. The contracted price for the entire order was stated to be 10.2 billion yen (US \$ 34 million) and was payable in Japanese currency. Fujitsu Limited, manufacturer of telecommunication and information equipment recently settled a transaction with the Spanish government for establishing a subsidiary there to produce electronic computer equipment. Aiwa Company, a leading producer of tape-recorders and home electric appliances, announced in the last week of December the acquisition of a 49 per cent equity interest in Atlas Electronics Private Limited of Singapore. More recently, it was disclosed that Sumitomo Chemical had signed a joint-venture agreement with the government of Singapore to build a US \$ 870 million petrochemical complex.

Emphasis on protecting or promoting overseas sources for its essential imports continues to be a strong feature of Japanese business policy. Mitsubishi Oil Company of Tokyo recently concluded a transaction with a French firm which will supply seven million barrels of Indonesian crude oil in exchange for \$ 17 millions in loans. The French firm will use the money for developing a new oil field in Indonesia which is expected to start producing crude oil in June this year. Five Japanese and one American firm have recently entered into a joint agreement with the Jamaican government to expand bauxite and alumina production in that country. The Japanese companies are Sumitomo Chemical, Nippon Light Metal, Kobe Steel, Marubeni and Kanematsu-Gosho. This marks Japan's entry into the bauxite industry of Jamaica which is the second largest producer of bauxite in the world after Australia. Talks are taking place between Japan and Australia on a five-year agreement under which the latter would sell 600,000 tonnes of raw sugar annually.

### liberal imports

Lest the USA or the industrialized countries of the west might take an uncharitable view of Japan's preoccupation with exports in the present conditions of the world economy, both Japanese government and industry are sparing no effort to demonstrate that Japan's import attitudes are being liberalized. For instance, the government decided recently to liberalize Japan's partially restricted imports of integrated

circuits (ICs), which are semi-conductor electronic devices used in modern electronic appliances including computers and desk calculators. Earlier, the government had liberalized direct foreign capital investments in ICs production ventures in Japan. It is pointed out that these measures mean total decontrol for foreign ICs producers or dealers in production or sales in Japanese territory. During the first ten months of 1974 domestic production of ICs were of the value of 9.2 billion yen and imports of the value of 4.4 billion yen, which means that, even as it is, imports are already of the order of 43 per cent of domestic production. Nevertheless, the ministry of International Trade and Industry is confident that imports will not harm Japanese producers who, it is claimed, have already attained a level of technology or productivity comparable to that of the world's top manufacturers.

### import of technology

Incidentally it is being stressed that Japan's industry is becoming more and more outward looking in its pursuit of technological excellence and in this context it has been pointed out by the Science and Technology agency that technical know-how introduced from abroad is tending to be on the increase. There were 2,450 cases of foreign technology in the year ended March 1974. About 80 per cent of the know-how brought into Japan was in the Class-A category, requiring contracts lasting more than one year. Out of the contracts in this class, 31.8 per cent concerned machinery, 15.8 per cent electricity and 13.9 per cent chemicals. Again, technical skills connected with the textile industry topped the list with 232 cases of imported know-how. Imports of technical know-how showed sharp increases in the case of electronics and communications, petroleum plants, environmental conservation, Paris fashion items and leisure industry. The United States was the largest exporter of technical know-how to Japan, accounting for 51.2 per cent of Japan's total purchases. It was followed by West Germany, France and Britain in that order. Japan's technical know-how import payments increased by 25 per cent in the year ended March 1974 over the preceding year, while its receipts from the export of technical know-how went up by only 18.9 per cent.

It was mentioned earlier that Japan's exports amounted to US \$44.5 billion during January-October 1974 and imports to US \$ 51.5 billion. The exports were about equally divided between the developed countries and the developing countries, the ratio being roughly 21 : 20. As

for the imports, the developed countries had a somewhat smaller share than the developing countries, the ratio here being 21 : 27. Again, Japan's trade with the developed area was very nearly in balance, while its imports from the developing area were somewhat larger than its corresponding exports. The communist bloc is not included in the above categories. Japan's exports to countries in this grouping amounted to US \$ 2.9 billion while imports were valued at US \$ 2.5 billion.

### overall trade

Japan's total exports during January-October 1974 were 52.6 per cent more than in the corresponding period of 1973, while its imports were 69.2 per cent higher. Exports to the Middle East had doubled in value and to the communist bloc were 95 per cent more. Exports to Latin America showed an increase of 85 per cent and to Australia 81 per cent. In the case of imports, those from the developed countries were only 34.5 per cent more, whereas those from the developing countries were 116.5 per cent more. Imports from the Middle East showed a spectacular rise of 239 per cent, thanks to the sharp increase in oil prices, and this, in fact, accounted for the rise in the aggregate value of Japan's imports. The percentage increase in imports from all the other trading areas was lower—in most cases substantially lower—than the percentage increase in aggregate imports. The *Sumitomo Bank Review* assesses the outlook for exports in 1975 at an increase of 8.6 per cent by volume. It seems highly probable that the greater part of this increase would be accounted for by Japan's trade with the Middle East, the communist bloc, Latin America and possibly southeast Asia.

Perhaps for the first time in many years the Japanese people, including the business community may not be wholly occupied with the problems or the affairs of their national economy. More and more public attention is being given to what may broadly be described as political issues. The inglorious exit of the former prime minister, Mr Tanaka, who was charged with abusing his political office or public position for personal gain, has brought out into the open the challenge that political corruption poses to clean government. The new prime minister, Mr Takeo Miki, owes his elevation as much to the image he presents of "Mr Clean" as to the fact that factionalism in the ruling Liberal Democratic Party (LDP) frustrated the efforts of the two strongest contenders for the post, Mr Takeo Fukuda and Mr Masayoshi Ohira. Mr Fukuda has since become the deputy



prime minister in Mr Miki's cabinet and Mr Ohira the Finance minister.

Many unkind things were said about Mr Miki when his elevation was announced. He was described as a bottom-of-the-hat choice and also as "the odd man in." Humorists have also noted that, although he has become prime minister in the closing weeks of the year of the Tiger, he will more appropriately fulfil his destiny in the new year of the Rabbit. Nevertheless, there seems to be much quiet confidence in the Japanese people themselves that Mr Miki may well be what the doctor has ordered for the Japan of 1975. In economic affairs he is expected to work for growth with stability and Mr Miki's own concept of what this ought to mean seems to be a reduction in the rate of increase in consumer prices to 15 per cent by the first quarter of 1975 and an annual rate of growth of five per cent for the Japanese economy for the year as a whole.

### low-keyed reformist

It is however not in economic affairs that Mr Miki himself may feel called upon to show his paces. Seen by many as a low-keyed, reform-minded conservative, he may nevertheless get quite tough about what may be considered to be his priorities as the man chosen to set Japan's social and political house in order. For instance, as a dedicated environmentalist, he seems to be more serious than most Japanese politicians about making and enforcing tough anti-pollution measures particularly with regard to the prevention of the further contamination of Japan's land waters by chemical and mineral discharges. He is also reported to be much concerned over the fact that major Japanese car manufacturers, such as Toyota and Nissan, have succeeded in obtaining a delay in the implementation of what is recognized to be the world's strictest clean air legislation which has already been passed by the Japanese Diet. Smaller automobile manufacturers, such as Honda, Toyo (Mazda) and Mitsubishi have already incorporated in their vehicles emission controls of the stipulated standards for reducing exhaust pollution and it is believed that the prime minister would soon move to persuade the big manufacturers of large-displacement vehicles to follow suit in spite of the prevailing depressed conditions in the industry.

Even otherwise Mr Miki seems inclined to persevere with the proposition that big business must recognize and discharge certain large social responsibilities to the community. He is keenly interested in a move to put tooth into the anti-monopoly law, while the Finance ministry is plann-

ing new controls on bank loans to giant businesses. Already limits have been set for each bank's outstanding loans to each single business firm at equivalents of between 20 and 40 per cent of each bank's outstanding paid-up capital and it has been firmly stated that the ministry would ensure that smaller firms receive a fair deal in the matter of bank credit. The prime minister is also taking personal interest in curbing speculation in land. A new National Land Utilization Law has just gone into effect and one of its objectives is stated to limit annual increases in land prices within a ceiling of 10 per cent.

It is however in the areas of improving his own party's public morals and reforming election law that Mr Miki will be put to the test as the new broom on the job—a point which we in India should no doubt be able to appreciate. The Home Affairs ministry in Tokyo recently announced that a total of 1,373 political organisations, including the five major political parties, received a combined total of 51.6 billion yen in political funds and spent 52.9 billion yen between January and June 1974. It was noted that both the income and expenditure figures were over double the corresponding amounts reported for the comparable period of last year. Of the total political donations, 30.9 billion yen or 60 per cent came from unascertained sources. The five major political parties received 44.1 per cent of the total donations and among them the ruling Liberal Democratic Party received more than 64 per cent as its share, while the country's second largest party, namely the Socialist Party, got just 2.6 per cent. Finally the five major factions within the LDP received donations 2.5 times over the comparable figure of a year ago. A major portion of the amount was believed to have been spent on the candidates of the respective factions in the last upper house election.

### political donations

It is against the background that the Miki government is now under pressure to revise the existing political donations regulation law in order to bring about the diminution of the influence or abuse of big money in politics and elections. The prime minister has been having a series of "political dialogues" with opposition parties on this issue and beyond saying that he was planning to reform the law governing political donations within the next three years instead of five years as reported earlier, he has permitted himself only the characteristically cautious commitment that he will "change what can be changed." On a more personal plane, the prime minister promised soon

after he took over the office that he planned to publicize his personal assets although he had indicated that he would not himself bring pressure to bear on his colleagues in the cabinet to do likewise.

It would however be wrong to suppose that the Japanese are becoming an unduly serious people all of a sudden. There are, for instance, the sprightly officials of the Mitsubishi Corporation's headquarters in the Marunouchi office district in Tokyo, who are loudly complaining that the skirts of office girls are becoming longer and longer. Although this trend may have brought some cheer to Japan's depressed textile industry, it seems to have fallen as a heavy pall on male spirits in Tokyo's busy business area. According to a women's wear section of a leading Tokyo department store mini sales are now three against seven of midis and longs, with even the so-called minis now come down to the knee.

### "host club"

Much more than clothing seems however to be in retreat where the new mood or mores of a new generation of Japanese women is concerned. A prominent Tokyo newspaper has written about the growing popularity of what was until recently a novelty in Japan's entertainment world, namely, the "host club." This is an establishment which provides Japanese women with male hosts, who turn on charm, open doors, light cigarettes, hold chairs" and in general minister all those various delicate or delicious attentions which the female heart yearns for but does not always get in the regular routine of married life. Although most Japanese women go along with recognizing the privileges of masculine primacy, such as wives accepting rather than complaining about their husbands' late night carousing, more and more of them, including especially a growing tribe of business women, often earning as much good money as business men, are now stated to be having their own back on a male-dominated society or a male-centred family by taking themselves to a host club as a pleasant way of having a night on the town. The more well-healed customers are stated to be writing cheques running over 100,000 yen for a few hours' evening entertainment but the host clubs do not have to depend on such big spenders alone. Many middle class housewives, being fed up with or even resenting the traditional attitudes of Japanese husbands, as well as single girls working in offices or shops and desiring to experience some romance even if they have to pay money for it, are reported to be providing the



host clubs with their bread-and-butter business.

The male personality, however, may still have plenty of life left in it. I have written at the outset about hosts of Japanese young men flying out of Tokyo for their New Year holiday. On the eve of this holiday exodus, the Japan Travel

Bureau estimated that a record number of 130,000 persons (10 per cent more than the number a year ago), mostly young people, would be making trips abroad during the period from Christmas Day to January 3. It also said that some 70,000 of these people were expected to go to countries in southeast Asia. Although

more and more Japanese young men are tending to take their young wives with them when they go abroad, it may safely be assumed that a high proportion of this 70,000 were temporarily unattached males who would have had a thing or two to tell their women when they got back home, host club or no host club.

(To be concluded)

# The oil "miracle" in the Gulf states—II

London

Josselyn Hennessy

## Bahrain

Amir H.H. Sheikh Isa Bin Sulman Al-Khalifa

Exchange Rates 0.92 Dinar = £1  
(£1 = US \$2.33)

THE GENERAL election and the first meeting of the 42 members of the National Assembly in December, 1973, ended two centuries of hereditary rule. The new Assembly is not wholly elected (12 members are appointed cabinet ministers) and the Amir still remains the ultimate authority. Bahrain declined the chance to join the United Arab Emirates in 1971 and instead has concluded many agreements with the other Gulf States. An extensive economic and cultural pact with Kuwait was signed in June, 1973, which was designed to lay the foundations of a Gulf Common Market, and in April this year Bahrain, Oman, Qatar and the United Arab Emirates approved plans to set up a joint shipping company.

Moreover, the Government followed the line taken by other members of the Organisation of Arab Petroleum Exporting Countries (OAPEC) during the October war by reducing its crude oil production and banning exports to Holland and the United States. Oil production began in 1932 but has remained relatively small. In 1973, it amounted to 3.4 million metric tons, i.e., only 0.2 per cent of the Middle East total. Moreover, output has been generally declining in recent years. In August, 1974, production totalled 0.28 million metric tons, 3 per cent down on August, 1973. However, the escalation in oil prices has greatly outweighed this decline in volume. Oil revenues for 1974-75, were originally estimated at BD33.7 million but have been revised upwards and are now put at BD70 million, more than six times the receipts for 1973-74. In line with the substantial increase in oil revenues, budgetary expenditure

has been raised from an original to BD35.5 million to BD70 million; most of the increase is to go to development. Nevertheless, a surplus of income over expenditure of some BD19 million was still expected in 1974.

The Bahrain Petroleum Company (BAPCO) holds the concession covering all the land and certain offshore areas until 2024. In the past the government had rejected participation agreements on the grounds that domestic production was too small, but recently there has been a change of policy and in September it was reported that an agreement had been reached with BAPCO giving the state a 60 per cent share of oil production.

## future developments

However, future developments cannot be based on domestic oil production, because present reserves are likely to last for only another 20 years, unless there are major new discoveries. Accordingly, the government activity encourages economic diversification. One example is the BAPCO oil refinery, one of the largest in the Middle East with a present capacity of 36,720 metric tons per day, around 70 per cent of which is piped from Saudi Arabia. The \$62 million, 6,800 metric tons per day, desulphurising unit which came on stream in 1973 has proved a valuable addition to the refinery. Another major industrial development is the large aluminium smelter plant, operated by Aluminium Bahrain (ALBA) on Sitra Island, described as one of the most successful industrial ventures in the Middle East. In February 1974, the government increased its holdings in ALBA to 40.4 per cent and an agreement was signed recently to supply aluminium to China. The plant uses Australian alumina and has recently reached full production of 120,000 metric tons a year. Power is provided by natural gas from the large de-

posits of the Khuff field. Gas reserves are sufficient for at least 80 years and it is hoped that they will form the basis for further industrial development. The other main industrial centre is in the free-trade zone near the main port of Mina Sulman. Industries include flour, fishing, paper products, plastics, light engineering and ship repairing. A major stimulus to the economy will be provided by the BD47 million OAPEC-financed dry dock project which, after some setbacks, received final approval in June, 1974. The dock will initially be able to accommodate ships up to 275,000 tons, but there are plans to expand the capacity to 500,000 tons. A start has been made on the project to be completed in 1977. The dock will not only provide direct employment for some 3,000 men, but it will also necessitate the expansion of many ancillary industries. Port and airport facilities are being expanded in hopes that the state will become a major middle east transit centre. There are plans for a causeway link with Saudi Arabia.

## business centre

With an efficient communications network and no income tax or exchange controls, Bahrain is becoming increasingly important as a business and financial centre in the Gulf. During 1973 bank deposits increased from BD78 million to BD96 million, and by early 1974 thirteen foreign banks were operating in the country. While the value of non-oil exports remained relatively unchanged last year at BD32 million, imports rose by 28 per cent to BD128 million. However, when account is taken of oil exports, invisible earnings and capital inflows, a payments surplus was probably achieved. The one real cause for concern is the rise in the cost of living (estimated at 30 per cent last year) and its effects, which the government is tackling by measures including subsidies on food and other essential items, reductions in elec-

tricity charges, wage increases, and controls on essential imports.

## United Arab Emirates

(Abu Dhabi, Dubai, Sharjah, Ras Al-Khaimah, Fujairah, Umm, Al-Quaiwain, Ajman)

President H.H. Sheikh Zayed Bin Sultan Al-Nahayan

Vice-President H.H. Sheikh Rashid Bin Said Al-Maktoum

Exchange Rate 9 27 Dirhams £1  
(£1=US \$2.33)

The United Arab Emirates, a federation of seven Emirates in the lower Gulf previously known as the Trucial States, became a sovereign independent state in December 1971. Sheikh Zayed of Abu Dhabi heads a Supreme Council, comprising the rulers of the other six Emirates, which meets at least twice a year to discuss matters of mutual interest. In its first two and a half years, the federation has firmly established a role for itself in world affairs and has made cautious progress towards integration between the states.

Fuelled by finance from the oil-rich Emirates, particularly Abu Dhabi, economic and social development has been going rapidly ahead and the commercial and legal conditions are generally favourable to the growth of trade and investment. Partly in order to assist integration, roads are being built, and air and sea port facilities extended. Growth has revealed the shortage of skilled manpower in the Emirates, which are heavily dependent on expatriates' services. Importance is therefore attached to improved education.

Development priorities are reflected in the expenditure allocations in the 1974-75 federal budget. Total expenditure envisaged amounts to UD692 million, compared with UD510 million in 1973-74.

In May, 1973, the UAE introduced its own currency, the Dirham, to replace the Bahraini Dinar and the Qatar/Dubai Riyal, which had previously circulated in the Emirates. Later in the year, a UAE Currency Board was established to direct financial affairs and issue currency. With the backing of oil revenues, the currency is strong and a UD300 million loan to the World Bank was granted in May, 1974.

That there are now 65 banks in the federation, and several more about to open, reveals the development of

the UAE as a banking and financial centre.

## Abu Dhabi

Ruler H.H. Sheikh Zayed Bin Sultan Al-Nahayan

The largest of the Emirates, Abu Dhabi has been dramatically transformed by the discovery of oil in 1958. From a small fishing community it has become the richest country in the world, with a per capita income of around \$27,000. Because of production and price increases income from oil rose to \$1035 million in 1973 and was forecast to reach \$3,172 million in 1974. Production of the high-quality crude has been expanding rapidly, rising by 24 per cent in 1973 (despite politically motivated production cuts in the last quarter) to reach 62.5 million metric tons. Revenue also rose because of the increase in oil prices; posted prices more than quadrupled in 1973. Receipts were expected to rise further after the conclusion of negotiations in September with the international oil companies on a 60 per cent state-participation agreement. Attention is also being given to the natural gas resources. A feasibility study of the processing and marketing of associate gas from the oil fields is to be carried out, and work has been started on a \$300 million liquefaction plant on Das Island which will produce about three million tons of gas a year, most of which will be exported to Japan. The liquefaction plant will form part of a \$9,000 million LNG chain including the commissioning of suitable tankers and the creation of terminal storage and distribution facilities in Japan.

Since the successful completion of a five year Plan in 1972, there has been no formal long-term attempt at co-ordinated development. Planned expenditure in the development budget for the 1974-75 fiscal year totals UD1,500 million, of which UD92.7 million is allocated for health, UD299.2 million for industry, electricity and water, and UD89.2 million for communications. Development has so far concentrated on an adequate infrastructure. Communications have received priority; a tarmac road between Dubai and Abu Dhabi has been completed, main arterial roads have been constructed in the town of Abu Dhabi and a study is being carried out for a new airport. The extension of welfare by schools, hospitals and low-cost housing has been planned. Substantial financial aid is given to the other Emirates and Arab nations, some of it being channelled through the Abu Dhabi Fund for Arab Economic Development, the capital of which has been in-

creased to \$500 million to allow loans to be made to developing countries in Africa and Asia. Reflecting Abu Dhabi's prosperity, imports, principally construction material, machinery, transport equipment and other capital goods, rose from UD758 million in 1972 to UD1,019 million in 1973; more than a quarter came from the United Kingdom. However, in contrast with Dubai, only some 2.5 per cent of imports are re-exported and thus oil exports are almost the only source of foreign exchange.

Sheikh Zayed, aware of the risks of overdependence on oil, is trying to diversify the economy. A number of new oil-based industries are planned but, outside oil, the main economic activity has been in construction where, despite rising costs (inflation is running at 30/50 per cent per annum) and labour shortages, the boom is expected to continue for at least another two or three years. Work has begun on a cement plant and another planned. Talks have been held about the possible establishment of a steel plant. The development of a modern fishing industry is another possible source of foreign exchange and there are hopes of building up a tourist industry.

## Dubai

Ruler H.H. Sheikh Rashid Bin Said Al-Maktoum

In comparison with other Gulf states, Dubai is but a small producer of oil; the only source of revenue at present is the Fateh field, where oil was found in 1966. However production has been steadily increasing, and reached 11 million metric tons in 1973. Moreover, the discovery of a second field in 1970 will permit further expansion. As yet there has been no official attempt to copy the participation negotiations of the other Arab producers; however, the state has benefited from the large increases in the posted price of crude oil and revenues were expected to increase from \$165 million in 1973 to \$576 million in 1974. All the associated gas from the oilfields is at present flared off, but an agreement to exploit the gas resources has recently been signed.

Partly as a result of the free atmosphere due to its long history as a trading nation, Dubai is fast becoming the centre for the oil servicing industry for the southern coast of the Gulf. Lack of adequate dry-dock facilities for large oil tankers and the potential business that can be expected from the developing fleets of the Arab world has led to the current construction of a massive dry-dock and ship-repair complex, estimated to cost \$91 million.

The oil income is regarded as a wel-

come bonus further to establish Dubai as a trading, banking and industrial centre. Trade is the traditional source of wealth and the current economic boom conditions are reflected in the growing value of imports. In 1973, imports increased by almost 60 per cent to reach UD2,341 million, 12 per cent of which came from the United Kingdom. The state is the leading entrepot centre in the Gulf; imports, four-fifths of which are re-exported, are primarily consumer goods but imports of machinery and building materials are increasing rapidly.

Prospects for trading and industrial development will be further improved by the decision to make Dubai a free port, at a cost of some \$1,000 million. The capacity of Port Rashid, only completed in 1972, is to be trebled at a cost of £65 million and two free industrial zones are to be established close to the port. One will be for storing, transferring and re-exporting goods and will cater for light industrial development. The other is to be for heavy industry: a £33 million natural gas plant, an oil refinery, a steel mill, a £26 million cement plant and two new power stations are planned.

### **Sharjah**

Ruler H.H. Sheikh Sultan Bin Mohammed Al-Qasimi

The third largest of the Emirates, with a population of 60,000, Sharjah has just become an oil producer. In early 1974, production began from the Abu Musa oilfield, owned jointly with Iran, and output should now be running at the rate of almost 10 million metric tons a year. A development plan is being drawn up, and a \$50 million Eurodollar loan has been obtained to cover the period until the oil revenues build up. However, substantial development, principally improvements in communication and infrastructure, has already taken place with the assistance of Abu Dhabi. Industry is small at the moment but the present harbour is to be extended at a cost of £21 million, a cement plant is to be built and a fish processing plant is already in operation. The development of agriculture holds good prospects, and opportunities to provide for visitors to the Gulf led to the opening of a UD40 million hotel in May.

### **Ras Al-Khaimah**

Ruler H.H. Sheikh Saqr Bin Mohammed Al-Qasmi

Although exploration continues and hopes of success are high, oil has not yet been found in commercial quantities. Nevertheless, with an area of 650 square miles and a population of 50,000, there is a substantial potential for development. In particular, foreign exchange earning

from agriculture and fishing, which form the basis of the economy, could be considerably expanded. In addition, there is a small marble quarrying industry and a cement plant is about to open up. Development has been concentrated on public utilities; power and water supplies have been provided, port facilities have been built and an airport is being constructed.

### **Fujairah**

Ruler H.H. Sheikh Hamad Bin Mohammed Al-Sharqi

With an area of 60 square miles and a population of 10,000, Fujairah is separated from the West Coast oil states by the Oman mountains and little of the oil Emirates' wealth has filtered through. Communications are the biggest problem. However, work has started on a road through the mountains, which is due to be completed by the end of 1975. The development of the fisheries, which with agriculture forms the mainstay of the economy, is the main hope for expansion; as yet no oil has been found.

### **Umm Al-Qaiwain**

Ruler H.H. Sheikh Ahmed Bin Rashid Al-Mualla

Oil concessions have been recently awarded to four companies for exploration and production in offshore areas. The only present source of income for the 5,000 inhabitants is fishing and the State is being considered for the location of an industrial fishing project. Good road communications exist with the rest of the Emirates and a power station has been built.

### **Ajman**

Ruler H.H. Sheikh Rashid Bin Humaid Al-Nuaimi

Ajman is the smallest of the seven

Emirates, comprising 300 square miles of fragmented land with a population of 5,000. Fishing is virtually the only source of income. In early 1974, the union allocated £1 million for the construction of sea walls to protect the fishing port from silting up. As yet, no oil has been discovered, but a hydrocarbon exploration and production concession has recently been awarded to an American company.

British exports to the Gulf states have expanded considerably in recent years. Whereas in 1967 total exports amounted to some £52 million, they totalled £185 million in the year ending August 1974. The major market for imports is in the United Arab Emirates (mainly Abu Dhabi and Dubai) which account for some 37 per cent of current exports followed by Kuwait (23 per cent), Oman, Bahrain and Qatar. A large proportion of UK exports comprises machinery and transport equipment; other main exports are manufactured goods, chemicals and foodstuffs. Given the vast increase in oil revenues and associated development projects underway in the Gulf, there is considerable scope for a further expansion. Why are no Indian exporters reported to be exploring the market?

**Sources and acknowledgements:** This is the second of two articles summarising reports on the fantastic developments in the Gulf States, following the Arabian "oil miracle" issued by the Barclays Bank Economic Intelligence Unit (54 Lombard St., London EC. 3P: 3AH). But the EIU is responsible neither for the emphasis of my summary nor for my interspersed comments based on a variety of sources.

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## Mr Kuldip Nayar, writing

in *The Statesman* of January 15, informed us that the prime minister was greatly worried that our soil might not be productive enough to sustain a population of one billion by the end of this century. I hope this does not mean that Mrs Gandhi is planning to stay in her present office for the next 25 years. In any case age of course need not necessarily be a bar to such ambitions since she will be only 82 in the year 2000 A.D. — and the world has known of presidents or prime ministers who had chosen to be in harness at an age even riper than this. The Nehru family has repeated itself twice in the government of this country, the first time as a saga and the second as a sequel. A sequel, normally, should not outrun the main story. In any case one should have thought that the prime minister has more to concern herself with about the next 25 months than with the next quarter of a century in the matter of food and population.

It seems to me that, if our government could manage to assure minimum food at reasonable prices for 580 million people in 1975, we need not despair of a government in 2000 A.D. being able to feed a population even about twice that number. Time, I am convinced, is more on the side of the human race than against it. If this were not so, the steel age would not have succeeded the stone age, nor the atomic age the age of conventional electricity. Given sufficient time, mankind will always manage to solve its problems. Trouble arises only when the mere politician creates problems which he then finds he cannot solve within the time available to him. In any case it could surely be argued that what Mrs Gandhi should really be asking herself is whether India should at all have a population of one billion by 2000 A.D., not whether the Indian soil would be able to support it after it has grown to that size.

## I am not saying that

there is no need for us to take thought of the morrow in respect of the fertility of the soil or indeed of natural resources in their myriad forms, but I should certainly think that it is even more important that we should pay some attention to making the best use as of today of the natural

resources currently available to us. "What has posterity done to me that I should do so much for posterity." This is not, as so many so readily assume, a selfish view that the present may be tempted to take of the future. On the contrary, the imagination and effort, the human ingenuity, skills and energy exercised in improving the circumstances of our living in its current context help also to build a better and still better world for a series of successive tomorrows. It is only generations which fail to fend for themselves properly in the times they happen to live in that are unduly worried about their place in history whether in terms of the past or of the future.

## As with every creative

resource land is not exhausted by what is taken out of it for it is also replenished with what we are putting into it. It is or must be a matter of common knowledge that some of the poorest soils in the world are those which have never borne a crop for the simple reason that they are too poor to bear one. It is equally well-known that some of the most fertile soils in the world are those which have been continuously encouraged to yield richer and yet richer crops. What matters then is how man tends the soil, and if the prime minister is worried about the soil being impoverished, she should be sitting up and taking notice of what is happening here and now than inflict on herself frightful visions of how the country may fare after 25 years have passed and the population has added another 400 millions to itself.

Years before Mrs Gandhi came into the government there were agricultural experts and officials in the administration who, for instance, were talking about cow dung or green manure. It was reported recently that a US firm had won a contract for shipping processed cow dung to the Persian Gulf states where this material would be used to build soil fertility into wastes of sand where no crop has ever been grown. Last year, when the oil crisis and the consequent squeeze on chemical fertilizers came to the fore, some of us thought that an effort would at last get under way to mobilize the resources of organic manure in our country. Perhaps it would be more profitable for the prime minister to ask why this is not being done in the context of the current

needs of our country rather than write Cassandra notes on official files about land letting down man in or about the year 2000 AD.

## Is it not about time that

Mr D.P. Dhar should start packing his bags? There are rumours, however, that he may not after all be catching a plane to Moscow. It was known of course that he was less than enthusiastic about the Kremlin in his future. What is new is that he is reported to have renewed his efforts to make the prime minister to see it his way. Whether he would succeed remains to be seen but, if he does not, it may not be for want of arguments. Nobody can deny surely that he has an immense native capacity for politics and few will doubt either that the prime minister has or soon will have use in domestic politics for a man of his special or particular talents.

Incidentally and in fairness to Mr Dhar, who agreed to be Planning minister and Mrs Gandhi, who appointed him to that office, I must confess that I was one of those who did think that he could be the answer to the maiden-aunt prayers of Yojana Bhavan. Which reminds me of the meeting I had with him soon after he became Planning minister. He was gracious enough to ask me what I thought the Planning Commission could do to build up public interest in planning. I said that it would perhaps be a good idea to have something to sell and then go out and sell it. It seems to me that Mr Dhar, however, started selling before he had anything to sell and that, when he did so, he attempted to sell not planning or even any particular five-year Plan but just himself.

## A Larsen and Toubro

advertisement reminds us that, before the ancient Indians invented the zero, there was nothing. Could it be that the zero nevertheless remains a mystery to some of the present-day descendants of its original inventors? Or is it the case that, since our forefathers had invented the zero, we have a legal right to play with it? In *The Hindustan Times* of January 18 there was a PTI report on the enlargement of the IMF 'oil facility.' The caption given to it at the editorial desk was "IMF provides \$101 billion as 'oil facility'." The amount seemed too good to be true. I admit that the OPEC countries are being more generous than many have ventured to hope, but to assume that they would pledge about 20 per cent more than their annual surplus of petrodollars is surely not reasonable. Actually, as the report itself made it clear, the sum was only \$1.1 billion.



# MOVING FINGER

# TRADE WINDS

## RBI Directive to Non-Banking Companies

For the information of non-banking institutions, their auditors and finance brokers, the Reserve Bank of India has explained the implications of some of the important provisions of the Reserve Bank of India (Amendment) Act 1974.

The term 'deposit' the RBI as clarified, includes, and was deemed always to have included, any money received by a non-banking institutions by way of deposit or loan or in any other form, but does not include money raised by way of share capital or contributed as capital by partners of firms. The definition of 'financial institutions' has been amplified so as also to include institutions conducting prize chits and/or conventional chits but to exclude industrial and trading concerns. It is statutorily obligatory on the part of the auditor of a non-banking institution to inquire whether or not it has furnished to the Reserve Bank returns or other information required to be furnished under the directions issued by the Bank and, if any institution has failed to do so, to make a report to the Reserve Bank giving the aggregate amount of deposits held by the institution. A new section makes it compulsory for brokers to disclose full particulars and information relating to non-banking institution on whose behalf they are canvassing for deposits. Moreover, without the written authority of the non-banking institutions concerned, brokers are prohibited from so canvassing for deposits.

The advertisements issued by share/investment/finance

brokers in newspapers soliciting deposits on behalf of non-banking companies on attractive terms, besides offering incentives, free gifts, etc., often merely contain statement like "write for free catalogues as per Reserve Bank directives" and "particulars as per Reserve Bank directives will be supplied on request"; they do not give full particulars in respect of individual companies as required under the Reserve Bank directions. Such advertisements would be illegal and would attract the penal provisions prescribed in this behalf.

## Dock Strike Called Off

The port and dock workers called off their four-day-old strike on January 20 after an agreement was reached by their leaders with the minister for Transport and Shipping, Mr Kamalapati Tripathi.

The workers will get an interim relief of Rs 120 a month for the period January 1 to July 5, 1974. For the period July 6 to December 31, 1974, the interim relief will be Rs. 100.

They will be paid an interim relief of Rs 50 a month from January this year which will be subjected to the additional emoluments compulsory deposit scheme.

The union leaders agreed to accept a lump sum payment of Rs 300 per worker for 1974. Out of this up to Rs 120 for the period from January to July 1974 will be paid in cash. The rest will be subjected to the additional emoluments compulsory deposit scheme.

The government has accepted the demand of the workers that the proposed wage revi-

sion should be effective from January 1, 1974.

## DA for Central Staff

The government and representatives of central staff have reached an understanding on payment of three of the five instalments of dearness allowance due to the employees. The agreement was reached after talks between the Agriculture minister Mr. Jagjivan Ram, and the Confederation of Central Government Workers and Employees. Arrears of the three instalments of DA which fell due on June 1, July 1 and September 1, 1974, accruing till December 31, 1974, will be deposited in the general provident fund account of each employee for six months, until June 30, 1975, after which the employees will be free to withdraw them.

From January 1, 1975, the recurring payments of these three instalments will be made in cash after putting 50 per cent of the additional amount in the compulsory deposit account.

As regards the instalments which became due on November 1 and December 1, the mode of paying them will be discussed by the government with the Confederation on March 15 together with the question of revision of wages in terms of the third Pay Commission's recommendations. The Confederation has withdrawn the agitation by central employees. The burden of three instalment on the Exchequer is expected to be over Rs 90 crores. The decision represents a compromise and will stagger the burden on the Exchequer.

## Symposium on Data Processing

The French Technical Co-operation Agency, ACTIM, in collaboration with the Department of Electronics, government of India, is organising a four-day symposium on electronic data processing at the Institution of Engineers Auditorium, New Delhi, starting on January 28, 1975.

At the symposium apart

from presenting several papers, leading french experts will be discussing on various topics relating to data precessing and on projects in which France has developed considerable expertise. An important aspect of the symposium is that substantial time allocation has been made for in-depth discussions on topics of interest between the French experts and their Indian counterparts.

Among the Indian invitees is a wide ranging cross section of electronic data processing experts drawn from the public and private sectors as also from the different ministries and departments of the government of India. The French delegation, in addition to experts from the various government departments also has representatives of several leading manufacturers such as CII, Schlumberger, Logabax, Sintra etc. who will be presenting papers and discussing the possibilities of commercial manufacture and use of e.d.p. components, sub-systems and systems as also the prospects of manufacture of their products in our country.

## Quick Estimates of National Income: 1973-74

The "quick" estimates of national income for the year 1973-74 at constant (1960-61) prices, prepared by the Central Statistical Organisation show an increase of 3.1 per cent over the previous year against a fall of 0.9 per cent in 1972-73 over 1971-72. The net national product (national income) for India in 1973-74 is estimated at Rs 19,724 crores at 1960-61 prices with a per capita income of Rs 340.1. The "quick" estimates are based upon the latest available data of agricultural and industrial production for 1973-74.

There has been an increase of 6.4 per cent in the income from agricultural sector in 1973-74 over 1972-73 which is mainly due to a substantial rise in food production during 1973-74. (6.6 million

tonnes) as compared with 1972-73. There has, however, been an appreciable fall in income from sectors like forestry and logging (3.7 per cent), construction (6.1 per cent) and railways (11.3 per cent). The overall increase in the national income has thus been reduced to 3.1 per cent.

The per capita income has increased from Rs 337.4 in 1972-73 to Rs 340.1 in 1973-74 at constant (1960-61) prices thus registering a rise of 0.8 per cent in 1973-74 over 1972-73. In 1972-73, on the other hand, there has been a fall of 3.2 per cent in per capita income.

At current prices, the "quick" estimates of net national product (national income) for India stand at Rs 49,290 crores in 1973-74 giving a per capita income of Rs 349.8. The per capita income at current prices in 1971-72 and 1972-73 are Rs 660.6 and Rs 698.2 respectively.

A statement giving the estimates of net national product at current and constant (1960-61) prices by industry of origin for the years 1973-74 and 1972-73 is given in the Records and Statistics section here.

## Fall in Exchange Reserves

The foreign exchange reserves recorded a sharp decline of Rs 132 crores at the beginning of the year, mostly on account of payments for food imports. Despite the uptrend in exports, the trade deficit widened to Rs 337 crores in the first seven months (April-October) of 1974, the period for which official data are available. The sharp fall in foreign exchange reserves has occurred despite large drawings from IMF totalling Rs 550 crores in 1974. India borrowed 200 million SDRs (Rs 93 crores) from the IMF's three-billion SDR oil facility in 1974 against her entitlement of over 500 million SDRs. The Fund has agreed to receive requests for more purchases under last

year's facility until February 28, 1975.

## Indo-Pak Shipping Pact

India and Pakistan signed an agreement on January 15 paving the way for the resumption of direct shipping services between the two countries after a decade. The two countries have agreed to take steps to withdraw from Feb-

ruary the restrictions on the entry of merchant vessels to each other's ports. Cargo between the two countries is to be carried on the principle of equality, both in regard to cargo liftings and freight earnings, on an annual basis. Also, vessels of either country would load only such cargo as is destined for the other. The vessels of either

country, their crew and cargo are to be given the most-favoured nation treatment in regard to their entry, stay, loading and unloading of cargo and passage out of the ports.

## Trade Delegation to Pakistan

An eight-member Indian team, led by Mr Y. T. Shah, Commerce secretary, left for

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## From National to Grindlays and a few facts in-between.

At dessert today I tasted for the first time bananas; the flavour is very much that of an overripe jargonella pear". Robert Orr Sawers, later founder and manager of The National Bank of India, wrote in his diary when he came out to India in 1861. It was an age when Englishmen kept diaries.



Calcutta was the seat of the Government, the change to Delhi coming many years later. The city must have immensely impressed Mr Sawers. An entry in his diary speaks of the "spacious and handsome" buildings and that "the maidan or public promenade is splendid—quite another Hyde Park in size and style".

In 1867 he headed The Calcutta City Banking Corporation Ltd., but in a few months its name was changed to The National Bank of India. In those days banks changed their names as often as the names of roads in Calcutta and Bombay are changed today. One of the first clerks was Babu Goberdhone Bural. He retired in 1912 as head clerk.

In 1865 The National opened a branch in Bombay. Shortly thereafter the Bank of Bombay closed.

## The Englishman.

CALCUTTA, THURSDAY, SEPTEMBER 24, 1863

### The Calcutta City Banking Corporation, Limited.

Registered under Act XIX. of 1867 and VII. of 1860.  
Authorized Capital—100 Lacs of Rupees  
(One Million Sterling)  
Subscribed Capital—Rupees 50,00,000, divided into 10,000 Shares of 500 Rupees Each.

Board of Directors.  
George Miller Blacker, Esq. Baboo Hindul Seal.  
William Anderson, Esq. Manickjee Rustomjee, Esq.  
H. E. Braddon, Esq. Baboo Pottit Pambus Sein.  
Baboo Doorgachurn Law.  
The Bank of Bengal.  
Messrs. Bensen, Sanderson and Ferguson  
Managers.  
Deputy Manager.  
Auditors.

Upwards of 30 years have elapsed since a Local Bank of any importance has been established in Calcutta, and when due weight is given to the fact of the wonderful progress made by India during that period, through the improvement of Agriculture, the opening of communications by Steam and Railway, the extension of Commerce and the blessings of a strong Government having for its aim the encouragement of peaceful pursuits, it will be admitted that the present is a particularly favourable opportunity for introducing a Bank with large resources capable of meeting the increased and growing demand for Banking accommodation to carry on satisfactorily the business of the Colony.

has already been subscribed by the Projectors. The remaining 5,000 Shares are offered to the Public, who will be required to deposit at the Bank of Bengal to the credit of The Calcutta City Banking Corporation ten Rupees per Share on application, and 90 Rupees per Share on allotment. The remaining 400 Rupees a Share will be called up by the Directors, as required, at intervals of not less than two months.

The Bank have secured the services of an European Gentleman of high qualifications and great Banking experience as a Manager. The Bank have also secured the refusal of suitable premises in an eligible situation and will commence operations as soon as the Articles of Association can be prepared and filed.

The business of the Bank will consist at the outset in discounting approved Bills and Notes, and lending money on the security of real and personal property and on Government Securities, on Shares in Banks and Public Companies with or without limited liability, and upon other good and approved Security. The Bank will also transact the usual Banking business.

All applications for Shares must be made in the enclosed forms, accompanied by a Receipt from the Bank of Bengal for the deposit, and addressed to the Secretary No 5, Wellesley Place.

### FORM OF APPLICATION FOR SHARES.

To the Directors of the Calcutta City Banking Corporation, Limited.  
GENTLEMEN,—Having paid to the Bankers of the above-named Company the sum of Rs. I have by receipt you will allot me Shares in the said Company, and I agree to accept such Shares on any conditions which may be referred to me and to be carried out by the Directors and the Bankers.

In 1869 the Suez Canal was opened. Neither the Arabs nor the Israelis objected. The voyage from London to Bombay was shortened from more than twelve weeks to a mere five weeks. And when the Indo-European telegraph came two years later, the marvels of modern communication must surely have seemed to reach a high water mark.

The bank obtained a 999-year lease, commencing from August 1867, for the site on which its main Bombay branch stands. The Save Bombay Committee did not object to the lease. A condition of the lease was that the bank should not conduct the trade or business of a Publican, perhaps because of the proximity of the new University of Bombay.

It was the year the Bombay, Baroda and Central India Railway began operating its suburban service from Backbay to Virar, very convenient for bank clerks residing in the distant suburbs of Charni Road and Grant Road.





It is not known how much the clerks were paid, but Mr Sawers, chronicler of bananas and other tropical fruits, received £1,500 per annum, though during three months' leave of absence in 1868, £40 per mensem was deducted from his emoluments and added to those of Mr Anderson for the latter's additional responsibilities as acting-manager in Calcutta.

At this point in our narrative, we must dwell upon the life and times of Captain Robert Melville Grindlay. He arrived in India in 1803. His military career was notable for its brevity. He retired on half pay, which for his rank amounted to five shillings a day. Thereafter he held several staff appointments, including that of the A.D.C. to the Governor of Bombay. Grindlay then turned to travel agency business and found it far more lucrative than anything he had done before. Business was brisk and inevitably led to banking. The first branch of Grindlay & Co. was started in Calcutta in 1854.



Dhanjishaw Framji Bhamjee joined the Bombay branch as a clerk in 1892, one of the first of the long line of Parsi gentlemen who work in the banks of Bombay. He retired in 1942 as chief cashier.

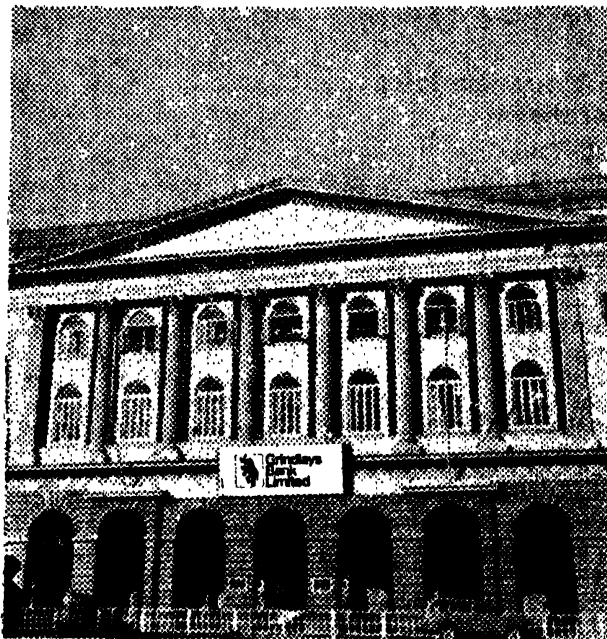
When he came to the bank, there was a large garden in the back where the manager's pony and trap were kept. The office was illuminated by gas and cooled by pull punkahs.

The world was changing. The price of unhusked rice had gone up to the astronomical figure of a full rupee for 25 seers. The rate of taxation had soared to heights previously unattained in India. It was estimated that on an average a person paid 8 annas per head. The post office was giving competition by starting its own savings bank. Minimum deposit was 4 annas and interest 3½ percent on every complete Rs 5. The first Indian census (in 1881) showed 198 million in British India, 55 million in the princely states and that was a lot of people.

The bank was opening branches; from Nuwara Eliya to Mandalay and Amritsar to Aden-Steamer Point. His Highness the Sultan of Zanzibar opened a personal account in the Zanzibar branch. In 1912 the Simla branch was opened. It was a very warm year.

And in 1914 everybody went to war.

And in 1958 The National Bank of India became National Overseas and Grindlays Bank and in 1959 it became National and Grindlays Bank Limited. In 1961 Lloyds branches in India became a part of National and Grindlays. And on January 1, 1975 National and Grindlays Bank Limited has become Grindlays Bank Limited. And the circle is complete—from National to Grindlays.



# Grindlays Bank Limited

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Pakistan on January 19, for talks on trade between the two countries. While working out a trade agreement, the two delegations are expected to make suitable arrangements for payment through official banking channels. The Indian team therefore includes representatives of the State Trading Corporation and the State Bank of India. Following the lifting of embargo on trade between the two countries on December 7, an Indian team had been to Pakistan to explore the possibility of importing cotton. The Pakistan Cotton Corporation may send a team to India soon in this connection. The protocol signed in November had identified certain commodities having good trade potential. These included raw cotton, engineering goods, jute manufactures, iron ore, railway equipment, rice and tea.

### Indo-Tanzanian Joint Commission

Indo-Tanzanian economic cooperation entered a new phase when the two governments agreed to set up a joint commission for economic, technical and scientific cooperation. Some of the immediate tasks before the joint commission, which will meet soon, will include an assessment of the projects already undertaken in Tanzania with Indian assistance. The commission will also consider joint ventures in spheres like electrical goods, machine tools, farm implements, bicycles etc. A fair measure of technical cooperation exists already between India and Tanzania in the form of exchange of experts and provision of training facilities in India in the fields of engineering, architecture, medicine and industrial management. Some 500 Indian experts are now working on various projects in Tanzania.

### Association of Iron Ore Nations

A draft constitution for forming an association of iron ore producing countries to secure remunerative prices

for this commodity in export markets was unanimously adopted at the three-day conference of officials of these countries in New Delhi recently. The conference adopted a document detailing the articles of association of the proposed iron ore body. Ministers from iron ore producing countries will meet in Geneva on April 2 and 3 to discuss the draft constitution. The proposed association is likely to be flexible enough to accommodate the views of iron ore consumers also. The committee discussed the broad objectives for an association covering cooperation among member-countries to safeguard their interests in relation to iron ore export, assisting the member countries to secure fair and remunerative returns from exploitation, processing and marketing of iron ore, interests of importing countries, decision making powers and other matters. In view of the rising cost of fuel and other inputs, the increase in the cost of iron ore had not kept pace with the hike in the price of other raw materials going into steel production like coking coal.

### Indian Cloth Exports to EEC

The European Economic Community and India have made considerable progress towards an agreement on Indian textile exports to the Community. Four days of talks in Brussels recently had narrowed differences and the remaining issues have been sent to experts for study. The main problem is the size of Community quotas for Indian finished cotton fabrics and house-hold linen. India wants the Community to push up its offer by at least 70 per cent. The two sides will meet again for another round of talks next month. Negotiations for partnership between the Common Market and 46 developing countries however foundered in apparent confusion despite intensive talks in special committees. The sugar price is a key part of the overall trade and aid package being negotiated to replace the existing Yaounde and

Arusha conventions. Britain has so far refused to budge from an offer of £250 per tonne for 1975, while sugar producers want at least £283. The ministers will have to meet at least once more to complete the negotiations. Other major problems that are still unsettled, are the amount of financial aid to be given to the 46 nations and trade concessions to be offered for their good exports.

### PM's Visit to Iraq

Mrs Indira Gandhi returned on January 21, from a three-day official visit to Iraq for talks with Iraqi leaders. Iraq is one of this country's major trading partners in that region and the two countries are trying to expand the area of cooperation in economic and industrial fields. Mrs Gandhi's visit was preceded by talks between the experts of the two countries culminating in the three-day meeting of the Indo-Iraq Joint Commission. The commission has identified several areas in which the two countries can co-operate. The two countries have decided that the trade between them in 1975 be doubled. In 1975 Iraq will maintain its supply of crude oil at last year's level of 2.8 million tonnes. The two countries have reached a broad agreement for setting up a sponge iron plant in Iraq and an iron pellatisation plant in India.

### Price Rise in Two Years

Wholesale prices in the last two years rose by 46.4 per cent. In 1974 they increased by 27.2 per cent—a record—and in 1973 by 19.2 per cent. The official calendar year average wholesale price index for 1974, stood at 304.6 per cent as against 239.3 for 1973, a 27.2 per cent rise. But the index for December, 1974, was about one per cent lower than that for November, the respective indices for the two months being 316.9 and 320. The last week of the year also showed a downward trend; the index at 315.3 was 0.3 per cent lower than in the previous week, because

of a fall in prices of food articles and liquor and tobacco. Prices in the last week of the year, however, were 18.6 per cent higher than those ruling in the same week of 1973.

### Foodgrain from USA

The United States has agreed to sell one million tonnes of wheat worth \$170 million to India this year. One half of this grain will be made available now and the balance before the end of June, subject to final allocations by the US Department of Agriculture. This was disclosed by Mr C. Subramaniam in Washington recently. US officials have confirmed only that negotiations are underway on 300,000 tonnes of US wheat for India with the agreement expected to be signed shortly. The US food agreement with India marks the resumption of food sales at concessionary prices, for the first time in more than three years. India is in need of three million tonnes of food grain by the end of June, Mr Subramaniam said.

### Gold Prices

The 126 countries of the International Monetary Fund have agreed to abolish the official price of gold, thus putting an end to the privileged role gold has played in the international monetary system for the past 30 years. The decision opens the way to elimination of any reference to gold in the IMF statutes, and amounts to a new step towards release of the gold stocks held by central banks. The IMF members agreed to lift the obligation to pay one-fourth of their IMF quotas in gold. Ending of the official prices for gold climaxes a series of steps in the direction of permitting gold-holding countries to use the metal as they see fit. Since 1970, when the free market price of gold began to diverge from the then official price of \$35 an ounce, central banks have abstained from transactions at that price. Restrictions began disappearing last year. Central banks were able

to sell all or part of their gold reserves on the free market. Elimination of the remaining official restrictions on use of gold by Central bank—especially as regards sale and purchase on the free market—will require further discussions over several months.

The decision to abolish the official price of gold will increase the value of India's gold reserves by nearly four times from Rs 182 crores at present. These gold holdings could be used for settling foreign payments now that there is no sanctity attached to gold and a minimum quantity of which no longer needs to be kept by the Reserve Bank. France has already revalued its gold holding according to the market price and every other country will now follow suit. The US government, which has the largest gold holdings in the world, recently lifted the ban on private gold sales. The international Monetary Fund's unit of account, the Special Drawing Right (SDR), will now become the means for calculating and settling international payments. Each country has a certain number of SDRs allotted to it and can draw on these when in balance of payments difficulties.

### Names in the News

**Professor K.V. Sivayya** of the Andhra University has been unanimously elected as president of the Indian Commerce Association, 1975, an All-India Academic Body.

He is also associated with various professional bodies at the regional and national level such as All-India Board of Technical Studies in Commerce (Government of India) and All-India Management Association. Indian Labour Research Institute, Indian Council of Social Science Research. His publications include: Trade Union Movement in Visakhapatnam, Industrial Relations in Visakhapatnam Port, Industrial Relations in Selected Units of Sugar Industry and Indian Industrial Economy.

# Cocoa grows in India— Cadbury-Fry research yields paying cash crop.



Cocoa today is a paying cash crop for the Indian farmer. At the current rate of progress it will be a profitable commodity with which India can enter the world market in the next 5 or 6 years. This will be an important breakthrough in the country's foreign trade.

The cultivation of cocoa is truly a pioneering agricultural achievement. A decade ago, growing cocoa in India was considered impossible. Tentative attempts had been made from time to time with no success. Then,

almost ten years ago, Cadbury-Fry took up the challenge and started serious, systematic and scientifically-based cocoa cultivation.

Cadbury-Fry collaborated with local farmers and the State Governments in locating suitable areas in South India and in selecting and preparing plots; they also imported and distributed free all the required cocoa seeds. The areas were successfully extended and today 4500 acres are under scientific cultivation. Cadbury-

Fry's world-wide experience with cocoa and their knowledge of Indian conditions has helped through all the stages of land selection, seed supply, transplanting, nurturing and ensuring healthy harvests.

The farmer is now encouraged by the yields of this high-return cash crop and Cadbury-Fry have guaranteed market offtake, and a minimum price. By the 1980's it is expected that India will grow enough cocoa to meet her domestic needs, and in fact be in a position to enter the international market with this commodity. Right now the unfulfilled world demand for cocoa is enormous because, while nearly the whole world consumes cocoa (and its products), only very few countries can grow and export it. This gives India a great opportunity to step in and fill the gap.

In addition to jute and tea, cocoa could thus become a significant export commodity for India and the resultant foreign exchange earnings could be considerable.

## Cadbury-Fry

making India the cocoa country.

CMCF-1253

# COMPANY AFFAIRS

## Subdued Trading

THE DOWN-DRIFT in equities persisted during the past week. The stir by jute workers, strike by dock labour and reports that there would be stricter control on the corporate sector, effective from February 1, under the amended Companies Act gave a severe jolt to marketmen. The nearness to the central budget and the disturbing forecasts about the likely budgetary deficit further dampened market sentiment. It looks that the market will remain listless till the budget is presented to Parliament. Marketmen are hoping for a modification in dividend ordinance and until and unless the dividend control is relaxed considerably the investment market is not likely to revive.

Dalal Street opened last week on a steady note but it turned easy as the week progressed. Equities lost ground on tired bull liquidation and fresh bear hammering. The volume of business continued to be restricted. After being subdued for a major part of the week under review share values on the Calcutta Stock Exchange rallied moderately at the close of the week on fresh support. In the clearing section activities centred round Birla Jute, Dunlop, Orient and Hindustan Motors. There was scattered interest in tea shares. Activities on the Madras Stock Exchange during the two days it was open last week, was restricted to few select scrips. The tendency, on the whole, was easy.

## Voltas

Voltas has staged a smart recovery from the setback it suffered during 1972-73

on account of the strike for over three months. It earned a handsome gross profit of Rs 4.70 crores for the year ended August 31, 1974 as compared to Rs 3.74 crores in the previous year, an increase of about 26 per cent. Sales during the year spurted to Rs 168.32 crores, recording an increase of as much as Rs 28.82 crores or about 20 per cent over 1972-73. Out of the gross profit, the directors have appropriated a sum of Rs 72.16 lakhs to depreciation reserve, Rs 2.06 crores to taxation and Rs 10 lakhs to development rebate reserve, as compared to Rs 62.08 lakhs, Rs 1.87 crores and Rs 4.50 lakhs provided respectively in 1972-73. This leaves a net profit Rs 1.81 crores as against Rs 1.20 crores in the previous year and the entire amount was transferred to the general reserve. The directors have recommended a dividend of 10.5 per cent for 1973-74 as against 17 per cent paid in the previous year. The proposed dividend will absorb Rs. 62.73 lakhs and will be paid out of the general reserve. The company proposes to commence the manufacture of centrifugal air conditioning at its Thana works by the middle of next year. The cost of the project is estimated at Rs 4 crores and it will be financed from internal sources and borrowings. Its exports which went up to Rs 1.50 crores from Rs 51 lakhs in 1972-73, is expected to increase further during the current year.

## Standard Mills

The board of directors of Standard Mills Company will take a decision regarding the issue of bonus shares at its meeting scheduled to be held around the middle of Febru-

ary. The company will complete at the end of the current month the 40-month period between two bonus issues stipulated under the government's guidelines for bonus issues. Meanwhile the company has reported satisfactory progress during the nine-month period ended December 31, 1974. Its sales during April-December amounted to Rs 39.62 crores as compared to Rs 31 crores during the corresponding period of 1973-74, recording an increase of about 28 per cent. Its exports have nearly doubled to Rs 3.89 crores. The increase in turnover, however, should not mean a proportionate rise in profits. The company had to contend with several adverse factors in the last quarter of 1974 although trading conditions have improved lately. The company has still to face the question of power supply. The company's production of chemicals has been adversely affected on account of the power cut. Output of caustic soda is currently regulated at 140 to 150 tonnes per day as against the capacity of 170 tonnes a day. In the meantime the company has received government's approval for expansion of its daily production capacity by 100 tonnes and also the sanction for the necessary foreign exchange. The expansion is likely to be completed by the middle of 1976.

## Mafatlal Fine

Mafatlal Fine Spinning and Manufacturing Co. has reported higher sales in the first nine-months of the current year ended December 1974 at Rs 36 crores as compared to Rs 32.3 crores in the same period of last year. Exports, however, was a shade lower at Rs 2.05 crores—Rs 0.75 crore less than in the corresponding

period of the preceding year. The overall profitability however, has been maintained during the period. The chemicals division is working satisfactorily. Power shortage has not affected it mainly due to the installation of generating sets. The sales of this division have suffered in the past few months as the aluminium plants which are the main consumers for the products of this division have been facing acute shortage of power. It is, however, hoped that the profitability of the chemicals division will be maintained during 1974-75. The working of the textile division is also expected to improve in the fourth quarter of 1974-75.

## Madura Coats

Madura Coats, a new company formed by the merger of three existing companies viz Madura Mills, J and P Coats and A and F Harvey, will soon be offering shares held by the existing foreign shareholders with a view to reducing the foreign shareholding from about 60.6 per cent to 40 per cent. The terms and conditions of the offer are still to be decided by the Controller of Capital Issues. The integration of these companies will go a long way in achieving higher utilisation of the existing capacities and thereby help reduce manufacturing and operating costs. Further the reduction in foreign shareholding will result in foreign exchange savings on account of lower remittances abroad by way of dividends. Besides there will be a substantial expansion in exports as the company has given an undertaking to the government of exporting textiles and thread worth Rs two crores a year for a period of five years in addition to the combined exports of about Rs 7.5 crores a year of the merged companies. As part of its diversification programmes the company proposes to set up a plant for an industrial nylon yarn project at an estimated cost of Rs 11 crores. The management is currently negotiating with the government details about the export obligation for undertaking the

nylon project. Besides it is exploring the possibilities of investment in engineering fields. It has also applied for setting up a garments factory involving an outlay of Rs 40 lakhs. Meanwhile the company has secured an industrial licence for the manufacture of dyesprings. The cost of this project is expected to be around Rs 20 lakhs.

### Shriram Fibres

Shriram Fibres Ltd, a company promoted by the Delhi Cloth and General Mills Co. Ltd has set up a plant for manufacture of nylon-6 tyre cord at Manali Industrial Complex, Madras. This is the first production unit of its type in Tamil Nadu. The total outlay on this project is about Rs 12.20 crores, including the foreign exchange component. The cost has been met by loans and by issue of equity and preference shares, out of which 40 per cent equity shares are held by Delhi Cloth and General Mills. The plant is designed for a rated capacity of 2000 tonnes per annum of high tenacity tyre yarn and fabric. It has been set up with the technical collaboration of M/s Chemtex Fibres Inc. New York, Chemtex Engineering of India Ltd and M/s Unitika Ltd of Japan, the latter being one of the largest producers of high quality nylon industrial yarn in the world. The start up of the plant commenced on December 30, 1974. Every effort is being made to make the plant to reach its full rated production of six tonnes per day. At present the company is encountering two serious difficulties. As against the requirement of 5500 KVA of electric power, it is now getting only 1000 KVA from Tamil Nadu Electricity Board on account of the severe shortage of power in the state. Even this restricted power supply is not available to it on an assured basis. The other difficulty is on account of the basic raw material caprolactum which is not yet available to it from Gujarat Fertilizers. Although the company has been permitted a limited quantity of

imports, it is hardly sufficient to meet its requirements.

### Kothari (Madras)

Kothari (Madras) Ltd has made considerable progress in its proposal for the setting up of caustic soda plant. Barring unforeseen circumstances the plant is

expected to go into production by early 1977. The investment in this project is expected to be of the order of Rs 15 crores while the gross profit before depreciation and provision for taxation is estimated to be between Rs 2 to Rs 2.5 crores. This was disclosed by the Chairman Mr

D. C. Kothari while addressing the annual general meeting of the company.

The year ended June 30, 1974 was an excellent year for Kothari (Madras). A record was set up in profit during the year. The plantation division produced 19.14

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lakhs kgs. of tea and 923 tonnes of coffee while sales of tea and coffee amounted to Rs 1.56 crores and Rs 66 lakhs respectively during 1973-74. As regards the textile division the turnover was of the order of Rs 13.11 crores as against Rs. 6.20 crores in the preceding year. While its sales overseas of cloth and yarn fetched for the company a sum of Rs. 76.40 lakhs as compared to Rs 43.93 lakhs in 1972-73. While the textile division made excellent profits during the year under review, its operations continued to be hampered considerably due to inadequate liquidity of funds arising out of the credit squeeze. While in physical terms the inventory of raw materials and finished goods on an average were not significantly different from the one it is accustomed to hold in terms of quantity, the inventories in terms of value were at unprecedented levels.

Kothari's fertiliser division has fared well and is now planning to embark on an expansion programme to raise the capacity of sulphuric acid plant from the present capacity of 15,000 tonnes to 18,750 tonnes per annum. The company hopes to implement this scheme as soon as the financial arrangements are finalised.

Kothari (Madras) is an amalgam of five companies viz. Waterfall Estates Ltd, Blue Mountain Estates and Industries Ltd, Balmadies Plantations Ltd, Kothari Textiles Ltd and Adoni Spinning and Weaving Company Ltd. One of the primary objectives of the scheme of amalgamation was to utilise more effectively the resources of the amalgamated companies to provide a steady rate of return to the shareholders and achieve greater financial stability to enable expansion, diversification etc. Keeping this objective in view the company is branching out into new and profitable ventures.

### Ashok Leyland

Ashok Leyland Limited has announced that with effect from January 1975, the net dealer price of its

whole range of 'Comet' vehicles will be reduced by Rs. 1,866/- each. During 1974, as a result of much higher production, and greatly improved productivity and efficiency, the company reduced its costs of manufacture. These reductions were achieved despite the high rate of inflation and much higher prices paid to the suppliers of materials and components. It has always been Ashok Leylands policy to maintain its selling prices at as low a level as possible, and pass on the benefits of lower costs—to its customers.

The reductions bear tangible evidence that the policy of voluntary price control recently introduced by the minister of Industry and Civil Supplies, Mr T.A. Pai, can operate successfully and to the benefit of the consumers. This is the second reduction in prices announced by Ashok Leland in the past three months. It will be recalled that the company was the first manufacturer to pass on to its customers the profit of the lower price of tyres announced by the tyre manufacturers in November 1974.

### Deepak Insulated Cable

Deepak Insulated Cable Corporation has completed its expansion programme and its present capacity is 1,900 tonnes of winding wires and strips. It started with an annual capacity of only 400 tonnes in August 1966. For 1975-76, sales are expected to rise to about Rs 7 crores. The company has plans to set-up a joint venture for manufacturing winding wires in Canada in collaboration with a Canadian entrepreneur. The Canadian counterpart will provide all the technical know-how for this plant. The cost of the plant is estimated at \$1 million. Equity participation will be given for the collaborator for the cost of the machinery and plant supplied to the new company.

### News and Notes

India's first micro-computer-MOSCAL 1080PS—designed and produced by DCM

Data Products was launched in New Delhi at a special function held at Oberoi Inter-continental Hotel on January 16, 1975. The Moscal 1080PS is a programmable scientific desk top electronic calculator with 10 independent memories and 36 functions and operations and weighs less than 5.5 kilogrammes. The scientists feel that this new data processing machine will prove a boon to research laboratories and institutions in the country and they also feel that it is a significant achievement of the Indian technologists in this field. So far such machines can only be imported at considerable expenditure which involves substantial foreign exchange. The saving in foreign exchange, by the introduction of this indigenous micro-computer will be to the tune of Rs 50 lakhs per annum.

Reliance Heat Transfer Private Limited has made a promising start in exports. The company opened an export division only last year and has so far earned Rs eight lakhs in foreign exchange.

The main destinations of its exports are the Middle-East countries. A big order

from Muscal is expected. The company, which has emerged as a leading manufacturer of heat transfer equipment for a variety of industries, is putting through an expansion plan which will enable it to produce an additional Rs. 50 lakhs worth of equipment. In view of the rising demand for the company's products in the South, a branch office is being opened in Madras to be followed by offices in Calcutta and New Delhi.

Tata-Merlin & Gerin, an Indo-French venture, leading manufacturers of switchgear and allied power distribution equipment in the country. Presented a small but impressive display at the 'ELECTRAMA 75'—an exhibition of the electrical engineering industry organised by the Indian Electrical Manufacturers' Association at the Sunderbai Hall from January 15 to 21, 1975. The TMG display highlighted its R & D activities and the efforts made by the Company towards imports substitution and development of ancillaries. The Company has subcontracted the manufacture of several critical components to over 175 ancillary industries thus generating a cycle

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It is hereby notified for public information that M/s. V. S. Dempo & Co. (P) Ltd., have submitted an application on 13-1-75 under Section 22 of the Monopolies & Restrictive Trade Practices Act, 1969 to the Department of Company Affairs New Delhi, for setting up a Milk Products Unit at Jamkhandi, Bijapur District, Karnataka State, for the manufacture of whole milk powder, skimmed milk powder, baby food and weaning foods.

Any person interested in the matter may make representation to the Secretary, Department of Company Affairs, New Delhi, within a fortnight of publication of this notice.

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S. K. Deshpande  
Secretary



of employment at different levels. The Company also has to its credit an export performance of about Rs 120 lakhs during the last two years.

### New Issues

**Tri-Sure India**, will be entering the capital market shortly with a public issue of 172,339 equity share of Rs 10 each at a premium of Rs 7.50 per share. The company is a wholly-owned subsidiary of American Flange and Manufacturing Co Inc, USA. It is producing such products as flanges, plugs, seals and light closures used to close drums carrying oil and heavy chemicals. It sells overseas about a third per cent of its production. During 1973-74 the company earned a net profit of Rs 18.81 lakhs on a turnover of Rs 1.85 crores. The directors have proposed a dividend of 12 per cent for the year ended August 31, 1974. The company's working in the current year is reported to be satisfactory and the directors are hopeful of declaring a fair dividend on the enlarged capital. The present issue is being made to dilute the foreign holding in the company's share capital to 49 per cent and also to provide funds for working capital. The public response to the company's offer of shares is likely to be good considering the prospects of a bonus issue and a reasonable rate of return.

**Davanagere Sugar Company Ltd.**, promoted by the Karna-

taka State Industrial Investment and Development Corporation Ltd and Karnataka Agro Industries Corporation, will be entering the capital market on January 27 with a public issue of Rs 55 lakhs, all in equity shares of Rs 10 each. The subscription list for this fully underwritten issues will close on February 6 or earlier but not before January 29. The company had set up a plant at Davanagere with an installed capacity of 1250 tonnes a day. The plant was commissioned at the end of October 1974 and is crushing at present 1000 tonnes of sugarcane per day. It hopes to reach the rated capacity of 1250 tonnes shortly. The plant, supplied by Walchandnagar Industries on turn-key basis, is designed for a capacity of about 2000 tonnes a day. The capital outlay on the project is estimated at Rs 4 crores and it will be financed by the share capital of Rs 1.60 crores and term loans of Rs 2.40 crores. The company hopes to declare dividend in the second year in view of assured profitability. Equity shares worth Rs 44 lakhs have been allotted to farmers in the surrounding areas and this ensures adequate supply of sugarcane. The company hopes to erect a paper plant and distillery as part of its expansion plan. It has already requested the government to raise its capacity for crushing sugarcane to 3000 tonnes a day.

### Dividends

(per cent)

| Name of the Company     | Year ended      | Equity dividend declared for |               |
|-------------------------|-----------------|------------------------------|---------------|
|                         |                 | Current year                 | Previous year |
| <b>Same Dividend</b>    |                 |                              |               |
| Mercara Rubber          | June 30, 1974   | 10.0                         | 10.0          |
| <b>Reduced Dividend</b> |                 |                              |               |
| Trichi Steel Rolling    | Sept. 30, 1974  | 7.5                          | 12.0          |
| Champarun Sugar         | June 30, 1974   | Nil                          | 15.0          |
| Kirloskar Brothers      | July 31, 1974   | 9.8                          | 12.0          |
| Matchwel Electricals    | Sept. 30, 1974  | 6.0                          | 9.0           |
| Ravalgaon Sugar         | Sept. 30, 1974  | 7.5                          | 16.0          |
| Madura Sugars           | Sept. 30, 1974  | 4.0                          | 20.0          |
| Saraswati Ind.          |                 |                              |               |
| Syndicate               | August 31, 1974 | 9.0                          | 18.0          |
| Bhopal Sugar            | Sept. 30, 1974  | Nil                          | 20.0          |

### Licences and Letters of Intent

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act 1951 during the month of October 1974. The list contains the names and addresses of the licensees, articles of manufacture, types of licences viz New Undertaking (NU) New Article (NA), Substantial Expansion (SE), Carry on Business (COB) and Shifting—and annual installed capacity. Details regarding licences and letters of intent revoked, rejected or surrendered are also given.

#### Licences issued

##### Metallurgical Industries (Ferrous)

Shri D.R. Sondhi, N-17 Panchsheel Marg, New Delhi.—(Alwar-Rajasthan)—Metallic Industrial Springs—300 tonnes.—(NU).

Sh. S. Indermohan Singh Grewal, Managing Director, Upper India Steel Mfg. & Engg. Co. (P) Ltd., Rattal Bldg. Deri Rd., Opp. District Courts, Ludhiana-141001.—(Ludhiana-Punjab)—Bars & Rods of mild steel including low alloy steel categories—11,000 tonnes.—(COB).

M/s Tin Manufacturing Co. of India, 141, Naya Bazar, Delhi-6.—(Ghaziabad-Uttar Pradesh)—Printed & Unprinted Containers upto 18 litre capacity—800 tonnes. Agricultural Implements—950 tonnes.—(COB).

M/s New Digvijay Singhji Tin Factory, Grain Market, P.O. No. 24, Jamnagar. (Gujarat)—(Baroda-Gujarat)—Printed Tin Containers—300 tonnes.—(COB).

M/s Ashok Products, Pratap Bungalow, Fatehpura, Baroda.—(Baroda-Gujarat)—Tin Containers—250 tonnes.—(COB)

M/s Industrial Containers Ltd., 21, Netaji Subhas Rd., Calcutta.—(Calcutta-West Bengal)—Mild Steel Drums/Barrels (160 litres and above)—8,000 tonnes inclusive of earlier licensed capacity of—6,000 tonnes.—(COB).

Sh. S.M. Kapadia, M/s Hind Containers 'Nirant' 14th Road, Khar, Bombay-52.—(Thana-Maharashtra)—Oil Drums(200/210 litres)—600 tonnes.—(COB).

Sh. H.K. Khaitan, M/s Hind Galvanising Co. 96, Garden Reach Road, Calcutta-1.—(Lilloah-West Bengal)—Small Drums upto 150 litres capacity—1800 tonnes inclusive of 1,400 tonnes of small drums already registered. Bitumen Drums—400 tonnes inclusive of 200 tonnes already registered.—(COB).

Sh. H. K. Khaitan, M/s Hind Galvanising Co. 96, Garden Reach Road, Calcutta-1.—(Lilloah-West Bengal)—Oil Barrels (200/210 litres)—8,200 tonnes.—(COB).

M/s Steel Containers Ltd., 21, Netaji Subhas Road, Calcutta.—(Bombay-Maharashtra)—Mild Steel Drums/Barrels—17,500 tonnes.—(COB).

M/s Special Steels Ltd., Datta Para Road, Borivli (East) Bombay.—(Bombay-Maharashtra)—Bright Bars - 2,400 tonnes.—(COB).

M/s Hindustan Melleables & Forgings Ltd., Jalan Nagar, P.O. Bhuli, Distt. Dhanbad (Bihar) —(Dhanbad-Bihar)—Grey Iron Castings 300 tonnes; Alloy Iron Castings 60 tonnes.—(COB).

Sh. Vallabhdas Vithaldas Patel, Director, M/s. Forge & Forge Pvt. Ltd., Galaxy Cinema Building, Race Course, Rajkot (Gujarat)—(Rajkot-Gujarat)—Close Die Forgings—3,000 tonnes.—(NU).

M/s Nava Karnataka Steel Pvt. Ltd., 115/XVII, Gokul Building Double Road, Bellory (Karnataka)—(Bellory-Karnataka)—M.S. Ingots; Electrode quality carbon steels; Forging quality carbon steels; Hardening & tempering quality carbon quality carbon steel; Cold heading quality carbon; carbon steels; Carbon, Carbon Manganese qualities of springs steels; Silico Carbon Tool Steels; Free cutting quality carbon sulphur steels; 9,000 tonnes.—(COB).



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M/s Metalman Pipe Mfg. Co. Ltd., 17-19, Industrial Area, Sanwar Road, Indore-3—(Indore-Madhy Pradesh)—Steel Pipes and Tubes—1,100 tonnes—(COB).

Sh. V. P. Gupta, M/s Steel Ingots Pvt. Ltd., Trivedi Chambers, 2, Maharani Road, Indore—(Dewas-Madhy Pradesh)—M.S. Ingots; Electrode quality carbon steel; Forging quality carbon steels; Cold heading quality carbon steels; Hardening and tempering quality carbon steels; carbon, carbon-Manganese and silico Manganese qualities of spring steels; Carbon tools steels; Case hardening quality carbon steels; Free cutting quality carbon sulphur steels—9,000 tonnes—(COB).

M/s Madras Motors Pvt. Ltd., 36-C, Mount Road, Madras—(Ramnad Distt-Tamil Nadu)—Steel Forgings—630 tonnes—(COB).

M/s Echjay Steels, Aji Industrial Estate, Lalpari Lake Road, Rajkot—(Rajkot-Gujarat)—Machine closed die steel forgings—3,200 tonnes—(COB).

M/s Ellora Engg. Co. Ltd. 20, Second Line Beach, Madras-1 (Tamil Nadu)—(Chrompet, Madras-T-Nadu)—Steel Forgings—1,200 tonnes—(COB).

M/s Sant Ram & Sons (Jagdishwar), 808, Industrial Area, Ludhiana-3 (Punjab)—(Ludhiana-Punjab)—Mild Steel Wires (Black)—900 tonnes—(COB).

M/s Niranjan Singh Kartar Singh, Link Road, Indl. Area, Ludhiana (Punjab)—(Ludhiana-Punjab)—Steel Forgings—1,000 tonnes—(COB).

M/s Alloy Steel Forgings Pvt. Ltd., 1001, Akash Deep, 26, Barakhamba Road, New Delhi—(Ghaziabad-Uttar Pradesh)—Steel Forgings—600 tonnes—(COB).

M/s Kumar Steel and General Mills, Lal Bahadur Shastri Marg, Vikhroli, Bombay-83—(Vikhroli-Maharashtra)—Steel Forgings—750 tonnes—(COB).

M/s Monga Brothers Pvt. Ltd., B-16, Focal Point, Dhandarikalan, Ludhiana, Punjab—(Ludhiana-Punjab)—Steel Forgings—200 tonnes—(COB).

Sh. P. R. Manchanda, M/s Golden Iron & Steel Works, 7/19, Kirti Nagar (Industrial Area) New Delhi. (Delhi)—Steel Forgings—3,050 tonnes; Forged Steel Rolls—450 tonnes—(COB).

M/s Kissan Engg. Works (P) Ltd., 15, G.T. Road, Ghaziabad (U.P.) (Ghaziabad-Uttar Pradesh)—Steel Forgings—1,700 tonnes; Forged Rolls—250 tonnes—(COB).

M/s Kalyan Agro Inds. Corpn. C-14, Focal Points, Dhandarikalan, Ludhiana (Ludhiana-Punjab)—Steel Forgings—100 tonnes—(COB).

M/s Gujarat Iron & Steel Co. Ltd., 1439-40, Loni Road, Shahdara-Delhi-32—(Ahmedabad-Gujarat)—Steel Forgings—250 tonnes—(COB).

M/s Usha Forgings & Stampings Ltd., 5, Parliament Street, New Delhi. (Faridabad-Haryana)—Steel Forgings—600 tonnes—(COB).

M/s Jay Forgings & Stampings Pvt. Ltd., Industrial Area, Yamunanagar (Haryana) (Yamunanagar-Haryana)—Steel Forgings (Close die Forgings—500 tonnes; Andopen forgings—250 tonnes—(COB).

M/s Gurunank Auto Engg. & Foundry Works, G.T. Road, Goraya, Distt. Jullundur (Punjab) (Bundala-Punjab)—Steel Forgings—650 tonnes—(COB).

M/s Choudhary Hammer Works (P) Ltd., Ramte Ram Road, Opp. Power House, Ghaziabad-U.P. (Ghaziabad-Uttar Pradesh)—Steel Forgings—2,150 tonnes; Forged Rolls—300 tonnes—(COB).

M/s Jain Kaliwala Engg. Works, H-2/5, Kidwai Nagar, Kanpur-14 (Uttar Pradesh)—Magarwara, Uttar Pradesh)—Steel Forgings—700 tonnes—(COB).

M/s Damehra Steels & Forgings Pvt. Ltd., 89, Netaji

Subhas Road, Calcutta-1 (Lilluah, Howrah-West Bengal)—Bright Bars and Shaftings—3,000 tonnes—(COB).

M/s Aevee Iron & Steel Works Pvt. Ltd., Eldee Chambers, 3, Broach Street, Bombay-9—(Bombay-Maharashtra)—Bright Bars and Shaftings—1,400 tonnes—(COB).

M/s Pratap Bright Steels Pvt. Ltd., 11, Advent, 12-A, Gen. J. Bhosle Marg, Bombay-21—(Bombay-Maharashtra)—Bright Bars and—3,600 tonnes—(COB).

M/s Bashimal Vinod Kumar 132-134, Pradhan Bldg., S.V.P. Road, Dongri, Bombay-9—(Nasik-Maharashtra)—Bright Bars & Shaftings—1,000 tonnes—(COB).

M/s Bhagwati Steel Pvt. Ltd., 16, Park Street, Calcutta-16 (West Bengal)—(Lilluah, Howrah-West Bengal)—Bright Bars and Shaftings—1,000 tonnes—(COB).

M/s Shree Shankar Industries Shree Krishna Mahal, 10, Walkeshwar Road, Bombay-400006—(Bombay-Maharashtra)—Bright Bars and Shaftings—1,000 tonnes—(COB).

M/s R. N. Gupta & Co., Industrial Area-B, Plot No. 484, 487, Ludhiana (Punjab)—(Ludhiana-Punjab)—Bright Bars & Shaftings—2,600 tonnes—(COB).

M/s Banwarilall Purshotamdass 29, Banstolla Street, Calcutta-27—(Faridabad-Haryana)—Bright Bars & Shaftings—1,600 tonnes—(COB).

M/s Roger Engg. Ltd., 106 & 109, Ansal Bhavan 16, Kasturba Gandhi Marg, New Delhi-110001. (Calcutta-West Bengal)—Bright Bars & Shaftings—1,000 tonnes—(COB).

Sh. Manmohan Lal Goel, M/s Bharat Udyog (Bright Bars Division), 23 Naya Gunj, Ghaziabad-UP.—(Muradnagar-Uttar Pradesh)—Bright Bars and Shaftings—1,000 tonnes—(COB).

M/s Indian Turn-O-Mat Industries, 22-23, R-Indl. Area-B, Ludhiana-141003. (Punjab)—(Ludhiana-Punjab)—Bright Bars and Shaftings—1,000 tonnes—(COB).

M/s Grand Foundry Pvt. Ltd., G.T. Road, Batala (Punjab)—(Thana-Maharashtra)—Bright Bars and Shaftings—1,800 tonnes—(COB).

M/s Snail Spanners (India) and Tools Ltd., 87, Nagdevi Cross Lane, Bombay-3—(Bhandup-Maharashtra)—Bright Bars and Shaftings—1,300 tonnes—(COB).

Shri Rampaul Gupta, M/s B. P. Steel Ind. Pvt. Ltd., 39/44, Sion East, Bombay—(Bombay-Maharashtra)—Bright Bars & Shaftings—3,900 tonnes—(COB).

M/s La Precision Spring & Engineering Co. Pvt. Ltd., 1 Suyojna Housing Society, Koregaon Park, Poona-1—(Poona-Maharashtra)—Metallic Precision Spring viz., coil springs Flat springs and Formed Springs—500 tonnes—(NU).

M/s Sethi Nippon Pvt. Ltd., Dil Bihar, 491, 17th Road Khar, Bombay-400052—(Taloja-Maharashtra)—Stainless Steel & Corrosion resistant Steel Castings—120 tonnes; Heat Resistant Steel Castings—130 tonnes; Alloy Steel Castings—1,000 tonnes—(NU).

M/s Tensile Steel Ltd., Shah House, Dr. Annie Besant Road, Bombay-18—(Baroda-Gujarat)—High Carbon, High Tensile Steel Wires—17,500 tonnes—(SE).

M/s Arkonam Castings and Forgings Ltd., 150-A, Mount Road, Madras—(Arkonam North Arcot, Tamil Nadu)—Steel Castings—1,000 tonnes—(NU).

#### Metallurgical Industries (Non-Ferrous)

M/s Agrawal Metal Works Pvt. Ltd., Agrawal Road, Rewari—(Rewari, Distt. Mohindergarh, Haryana)—Copper/Zinc plates and sheets for photo-engraving plates—300 tonnes—(SE).

M/s The Metal Rolling Works Pvt. Ltd., 104, Sion-Matunga Estate, Sion, Bombay—(Bombay-Maharashtra)—Aluminium

sheets/strips/circles, blanks, slugs/slug stocks—1970 tonnes; Brass and copper sheets/circles—30 tonnes—(NU).

#### Electrical Equipment

M/s Delton Cable Industries Private Ltd., 24, Darya Gunj, Delhi-6—(Faridabad-Haryana & Nagaigarh-Delhi)—Voltage Stabilizers (0.5 KVA)—1,000 Nos; Voltage Stabilizers (3.0 KVA)—150 Nos.—(COB).

M/s J.J.H. Industries Pvt. Ltd., R-54A, Greater Kailash-1, New Delhi-48—(Calcutta-West Bengal & Ghaziabad-Uttar Pradesh) At Calcutta Unit: AAC/ACSR Conductors upto 19 strands—1,600 tonnes; At Ghaziabad Unit: AAC/ACSR Conductors upto 19 strands—350 tonnes—(COB).

M/s Sayaji Iron & Engg. Co. (P) Ltd., Chhani Road, Baroda-1—(Baroda-Gujarat)—Diesel Engines of 5DHP (vertical Water Cooled)—130 Nos.—(COB).

M/s Menon & Menon (P) Ltd., Vikramnagar Kolhapur-416005—(Vikramnagar-Maharashtra)—Diesel Engines upto 50 H.P.—3,000 Nos.—(COB).

M/s Andhra Mechanical & Electrical Industries Ltd., 173, 2nd Floor, Fateh Maidan, North Road, Hyderabad-4—(Hyderabad-Andhra Pradesh)—Manually operated outdoor drop-out Lift off fuses: 11 KV—550 Nos; 22 KV—150 Nos; 33 KV—750 Nos. Manually operated indoor air-break insulators: 11 KV—2,000 Nos; 22 KV—55 Nos; 33 KV—580 Nos; 65 KV—45 Nos.—(NU).

M/s N.G.E.F. Ltd., Post Bag No. 5384, Bangalore-1—(Bangalore-Karnataka)—Power & Distribution Transformers—1,800 MVA; Rectifier, Furnace, Dry type & Clophen transformers upto the range of 49 MVA/132 kv—1,800,000 (KVA)—(SE).

M/s Crompton Greaves Ltd., Kanjur, Bhandup, Bombay-78-N.D.—(Bhandup-Maharashtra)—Moulded Case Circuit Breakers upto 660 Volts and 2,000 Amps—5,000 Nos—(NA).

Sh. Dinesh C. Gupta, L-13, Datta Guru Society, Deonarpada Road, Bombay—(Karnataka)—Silicon Slices (Expitaxial and non-expitaxial type) 0.1 million nos; Integrated circuits and Transistors (circuits or devices)—3.0 million nos—(NU).

M/s N.G.E.F. Ltd., Post Box No. 5384 Bangalore-1—(Bangalore-Karnataka)—Silicon Power Diodes "New articles"—20,000 Nos; Silicon Power Diodes D-450 within the licensed capacity—(NA/SE).

#### Transportation

Sh. Jagdish Prasad, Tej Bahadur Sapru Marg, Lucknow—(Lucknow-Uttar Pradesh)—Scooters—24,000 Nos.—(NU.)

#### Industrial Machinery

M/s Buckau Wolf New India Engineering Works Ltd., Pimpri, Poona-18—(Poona-Maharashtra)—Sugar Mill Machinery—4 Plants—(SE).

M/s Lakshmi Automatic Looms Works Ltd., S.R.K.V. Post, Coimbatore-20—(Coimbatore-Tamil Nadu)—Ruti High Speed automatic weaving machine type-C—1,800 Nos.—(NU).

M/s Eswaran & Sons Engineers Pvt. Ltd., 5-7, Second Line Beach, Post Box No. 1912, Madras—(Tiruvottiyur-Tamil Nadu)—Pressure Vessels; Heat Exchangers; Petroleum and Chemical storage tanks—1,400 tonnes—(NA).

#### Machine Tools

M/s Bijon Nag, 5/I-A, Keyatalla Road, Calcutta-29—(Calcutta-West Bengal)—Press Tools and Dies including Fine Blanking Tools—Rs. 60 lakhs; Fine Blanked components Primarily for Electronics and electronic industries, and automobile, aeronautical defence production and electrical industries—Rs. 140 lakhs—(NU).

#### Agricultural Machinery

M/s Victory Iron Works Pvt. Ltd., P-26, Banaras Road,

Salkia, Howrah (West Bengal)—(Salkia-Howrah-West Bengal) Agricultural Implements—500 tonnes—(COB).

M/s Dharam Engineering Co., G.T. Road, Batala (Punjab) Batala—Punjab—Agricultural Implements—1800 tonnes—(COB).

M/s Banwarilal Purushotamdass, 29, Banstolla Street, Calcutta-7—(Howrah-West Bengal)—Agricultural Implements—1700 tonnes—(COB).

Sh. G. R. Kumar, M/s Kumar Bros., Sheet & Metal Works, 1-C/10, New Rohtak Road, New Delhi—(Bahadurgarh-Delhi)—Agricultural Implements—400 tonnes—(COB).

M/s Bansidhar Chiranjilal, 1831, Bissomal Building, Bhagirath Palace, Chandni Chowk, Delhi-6—(Delhi)—Agricultural Implements—1200 tonnes—(COB).

M/s Sankar Iron Engg. Works Pvt. Ltd., 52/1, Dr. Aboni Dutta Rd., Howrah-1—(Howrah-West Bengal)—Agricultural Implements—650 tonnes—(COB).

Shree Sankar Industries 29A Sir Hari Ram Goenka Street, Calcutta—(Lilooah, Howrah-West Bengal)—Agricultural Implements—1,350 tonnes—(COB).

M/s Asiatic Wires Ltd., 23/24, Radha Bazar St. Calcutta—(Madhyamgram-West Bengal)—Agricultural Implements—150 tonnes—(COB).

M/s Parasramka Commercial Co. Pvt. Ltd., 135, Canning Street, Calcutta-1—Salkia, Howrah-West Bengal—Agricultural Implements—2,800 tonnes—(COB).

M/s Anand Metal & Steel Works, 23, Baraborn Road, Calcutta—(Calcutta-West Bengal)—Agricultural Implements—1650 tonnes—(COB).

M/s Calcutta Iron & Engg. Company Pvt. Ltd., 48 Biplabi Rash Behari Basu Road, Calcutta-1—(Howrah-West Bengal)—Agricultural Implements—2,750 tonnes—(COB).

M/s Kishore Vadilal Pvt. Ltd., Jamalpur Darwaja Near Munda Gate, Ahmedabad—(Ahmedabad-Gujarat)—Diamond Core/Water Well Drilling Accessories—60,000 Nos.—(NU).

M/s Escorts Ltd., 18/4, Mathura Road, Faridabad-Haryana) (Faridabad-Haryana)—Tractor Tuggers, Tractor Mounted Elevators & Rubber Wheel Shunters—200 Nos.—(NA).

#### Chemicals (Other than Fertilizers)

M/s South India Viscose Ltd., Post Box No. 1396, Race Course, Coimbatore-18—(Coimbatore-Tamil Nadu)—Carbon-di-Sulphide—7,740 tonnes; Sulphuric Acid 29,100 tonnes (for captive consumption only)—(SE).

M/s Dhrangadhra Chemical Works Ltd., Nimal, 3rd Floor Nariman Point, Bombay—(Dhrangadhra-Gujarat)—Ammonium Bicarbonate—1300 tonnes—(COB).

M/s T. K. Chemicals Ltd., 429, Arun Chambers, Tardeo, Bombay-34—(Trivandrum-Kerala)—Electolytic Manganese Dioxide—1000 tonnes; Manganese Sulphate Monohydrate—1000 tonnes—(NU).

M/s Greaves Foseco Ltd., Jolly Bhavan No. 2, New Marine Lines, Bombay-20—(Bombay-Maharashtra)—Foundry Fluxes—900 tonnes—(COB).

M/s National Air Products Ltd., 13/Z, Mathura Road, Faridabad-III (Haryana)—Faridabad-Haryana—Oxygen Gases 0.45 million cubic metres; New Articles Nitrogen Gas (by-product)—7,50,000 cubic metres—(NA/SE).

M/s Bharat 2M Processing Industries Ltd., Beliatare P.O. Baliaore, Distt. Bankura (West Bengal)—(Bankura-West Bengal)—Item of Mfr; Sulphuric Acid—15,000 tonnes; Ferric Alum Alluminium Sulphate—15,040 tonnes; Magnesium Sulphite—2,500 tonnes; Alum pure—500 tonnes; Zinc Sulphite—2,500 tonnes—(NU).

Dr. Virendra Patel, Ph. D. 770, Gotri Road, Baroda-7—

(Baroda-Gujarat)—Chemical & Immunochemical test systems—110 million unit; Automatic Equipment for using above test systems—1,000 Nos.—(NU).

#### Drugs and Pharmaceuticals

M/s Hoechst Pharmaceuticals Ltd., Ramon House, Backbay Reclamation, Bombay-20—(Bombay-Maharashtra)—Isopropyl Antipyrine—30 tonnes—(NA).

M/s Merck Sharp & Dohme of India Ltd., Dugal House, Backbay Reclamation, Bombay-1 (Bhandup-Maharashtra)—Cyanocobalamin and Hydroxocobalamin—144 Kgs.—(SE).

#### Textiles

M/s U.P. Export Corpn. Ltd., Udyog Bhavan, G.T. Road, Kanpur—(Varanasi-Uttar Pradesh)—Woollen Carpet Yarn—1,000 woollen spindles—(NU).

M/s India Jute Co. Ltd., 16, Strand Road, Calcutta—(Serampore-West Bengal)—Broad looms for manufacture of Carpet backing cloth—124 Nos.—(COB).

M/s Angora Spinners (P) Ltd., Ludhiana, Punjab—(Ludhiana-Punjab)—Jaquard circular knitting machine to be used on Angora Hair—4 machines. Flat Bed knitting Machines—4 machines—(NU).

M/s Sundaram Spng. Mills Komarapalayam, (Via-Erode), Tamil Nadu—(Komarapalayam-Tamil Nadu)—Cotton Cloth—250 automatic looms of indigenous make.—(SE).

#### Paper & Pulp

Sh. Raj Kumar Bhartia, 23/24, Radha Bazar Street, Calcutta-1.—(Kalyani, Distt. Nadi-West Bengal)—Kraft Paper—10,000 tonnes—(NU).

#### Sugar

Sh. Sreerama Sahakara Sakkar Karkhana, Chunchankattoo, K.R. Nagar, Taluk, Distt. Mysore—(Karnataka)—Sugar—1250 tonnes.—(NU).

M/s Shri Laxmi Co-op Sugar Factory Ltd., Taluka Daskroi, Distt. Ahmedabad.—(Ahmedabad-Gujarat)—Sugar—1250 tonnes cane crushing capacity per day.—(NU).

M/s Yeleru Co-op Sugar Ltd., Burugupudi, Proddarapuram, Taluk, Distt. East Godavari, Andhra Pradesh.—(East Godavari-Andhra Pradesh)—Sugar—1250 tonnes daily cane crushing capacity.—(NU).

#### Fermentation Industries

M/s Mohan Rocky Spring Water Breweries Ltd., 5/5, Grants Building, Arthur Bunder Road, Colaba-Bombay-5—(Colaba-Maharashtra)—Beer—50,000 Hecta Litres.—(COB).

M/s Vindale Breweries, A Unit of Vinedale Distilleries Pvt. Ltd., Chateau-De-Kausor, Premavathipat Village, P.O. Gaganpanad, Hyderabad, (Andhra Pradesh)—(Hyderabad-Andhra Pradesh)—Beer—20,000 Hecta Litres.—(COB).

#### Food Processing Industries

M/s Kasturi Papers, Foods & Chemicals Ltd., 19, Platform Road, Bangalore-19—(Karnataka)—Bakers Yeast—1000 tonnes Fodder Yeast—NU.

#### Vegetable Oils and Vanaspati

M/s The Vijaya Durga Cotton Trading (P) Ltd., Ethukurn Road, Guntur, (A.P.)—(Guntur-Andhra Pradesh)—Cotton seed oil—15,000 tonnes in terms of seeds—(NU).

#### Rubber Goods

M/s Dunlop India Ltd., 66-A, Mirza Ghalib Street, Calcutta-16—(Sahaganj-West Bengal)—Long Length Braided Rubber Hoses—20,00,000 metres.—(SE).

#### Leather Goods and Pickers

M/s Arvind Distillery Ltd., T.N.K. House, 2nd Floor, 11-A/3, Mount Road, Madras.—(Ranipet, North Arcot Distt.

Tamil Nadu)—Finished leather from Hides—60,000 Nos. Finished Leather from skins—3,00,000 Nos.—(NU).

#### Cement and Gypsum Products

M/s Modi Spg. & Wvg. Mills Co. Ltd., Modinagar (U.P.)—(Jagdalpur, Distt. Bastar-Madhya Pradesh)—Portland Cement—4,00,000 tonnes.—(NU).

M/s Panyam Cements & Mineral Industries Ltd., Cement Nagar, P.O. Bugganipalli R.S. Distt. Kurnool (A.P.)—(Bellary Distt. Karnataka)—Portland Cement—1,00,000 tonnes—(NU).

#### Metallurgical Industries (Ferrous)

Sh. Avtar Krishna 'Cassias' Flat No. 7 21-22, Turner Road, Bandra-Bombay-50—(Bangalore-Karnataka)—Pipe Fitting—1600 tonnes.—(NU)

Sh. Harsh Kumar Chopra B-258, Greater Kailash New Delhi—(Bulandshahr-Uttar Pradesh)—Forged Steel Pipe Fittings (Flanges, discs, rings, elbows, tees, bands),—1,600 tonnes—(NU).

M/s Lakshmi Precision Screw Ltd., Hissar Road, Rohtak.—(Rohtak-Haryana)—Precision Machine Screws—1,000 tonnes—(SE).

M/s Sivananda Steels Ltd., 240, Dewan Bahadur Road, R.S. Puram, Coimbatore-2 (Tamil Nadu)—(Tiruchirapalli or Puudukottai-Tamil Nadu)—High Pressure Radiography—2,400 tonnes (Steel castings) Alloy Steel Castings—1,000 tonnes, S.G. Iron Castings 600 tonnes.—(NU).

The Managing Director, Industrial Development Corporation of Orissa Ltd., Bhubaneswar-Orissa.—(Hirakud and Dhanakal:Orissa)—Electrode quality steels, Forging quality carbon steels, Cold heading quality carbon steels, Hardening & tempering quality carbon steels, carbon, carbon-Manganese and Silico-Manganese qualities of spring steels, Carbon tool steels, case hardening quality spring steels, Free cutting quality carbon sulphur steels-Hirakud—18,000 tonnes Dhanakal—18,000 tonnes—(NU).

The Project Administrator Govt. of Kerala Sectt. Trivandrum.—(Trichur-Kerala)—Closed Die and upset steel forgings—4,250 tonnes. Coil Springs—60,000 Nos.—(NU).

Sh. B.K. Gupta, 38, Ratendene Road, New Delhi-3—(Rajasthan)—High Alloy Steel Castings—800 tonnes.—(NU)

M/s Punjab Concast Steel Ltd., G.T. Road, Sherpur, Ludhiana (Punjab)—(Ludhiana-Punjab)—Rolled Products (Light & Medium Sections)—30,000 tonnes.—(NU)

M/s Epsilon Electronics Private Ltd., D-4, Amalfi, 15, Nepean Rd. Malabar Hills Bombay.—(Goa)—Malleable Iron Pipe Fittings—3,000 tonnes.—(NU)

Sh. R.D. Reddy, M/s Vidyut Steel Ltd., 1-10-176/1 Begumpet, Hyderabad-16—(Medak, Andhra Pradesh)—Manganese steel Castings—1500 tonnes, Ni-Hard Castings—500 tonnes Alloy Steel Castings (including high alloy steel castings)—1000 tonnes.—(NU)

#### Metallurgical Industries (Non-Ferrous)

M/s Deepak Insulated Cable Corpn. Ltd., 8th Mile, Bangalore-Tumkur Road, Dasarahalli-562139 (B'lore Suburb) Bangalore-Distt. Karnataka—(Bangalore-Karnataka)—Wire Enamels—329 tonnes.—(SE)

#### Electrical Equipment

M/s Kerala State Electronics Development Corporation Ltd., 1133 & 1134, Sasivihar, Perurkada, Trivandrum-5—(Kerala)—Variable Speed Drives—2,000 Nos.—(NU)

M/s Debikay Electronics Prop. Dhruva Woolen Mills Pvt. Ltd., P.B. No. 52, Balkum Village, Thana-Maharashtra—(West Bengal)—Static Convertors, Invertors & Control System for industrial/professional applications.—500 Nos. D.C. Motors

upto 200 Kw—250 Nos. On-load Tap changers for Transformers—200 Nos.—(NU)

M/s Southern Switchgear Ltd., 132, Mount Road, Madras-600006—(Madras-Tamil Nadu)—Oil Circuit Breakers upto—750 Nos. (33 KV).—(NA)

The Managing Director, N.C.E.F. Ltd., P.B. No. 3876 Bangalore-38—(Bangalore-Karnataka)—11 KV Circuit Breakers of 750 MVA Ratings—150 Nos.—(NA)

M/s Bush India Ltd., Sukh Sagar, N.S. Patkar Marg, Bombay.—(Thana-Maharashtra)—Quart Controlled Electronic Digital Watches & Clocks—40,000 Nos.—(NA)

#### Transportation

M/s Turner Hoare & Co. Ltd., Signal Hill Avenue, Tank Road, Bombay-33—(Maharashtra)—Propeller Shafts—2 lakh nos. Universal Joint Kits—9 lakh nos. Axle shafts—50,000 nos.—(NU)

M/s W.G. Forge & Allied Industries Ltd., Post Box No. 41, Majiwade, Thana. (Mah.)—(Ratangiri-Maharashtra)—Crank shafts at the new unit to be set up in Ratangiri Distt (Mah.)—35,800 Nos. Heavy crankshafts at the existing unit at Thana (Mah.)—200 Nos.—(NU)

Sh. A.H. Mitha, Lion's Den, 8-2-415, Road, No. 4, Banjara Hill, Hyderabad.—Bangalore-Karnataka—Automatic Commutators 5,00,000 Nos. Commutator Components—100 tonnes.—(NU)

M/s Southern Industrial Corporation Ltd., South India House, 99 Armenian Street, Madras-1—(Ranipet-Tamil Nadu)—Oil Seals—25 lakh nos.—(NU)

#### Industrial Machinery

M/s Rohit Pulp & Paper Mills Ltd. Rohit Chambers, Ghoga Street, Fort, Bombay-1—(Bulsar-Gujarat)—Paper Machinery—2 plants of sizes 30 tonnes per day capacity only.—(NA)

M/s T. Maneklal Mfg. Co. Ltd., Vaswani Mansions, Dinshaw Vachha Road, Bombay-20—(Ahmedabad-Gujarat)—High Efficiency Sectional Warping Machine—6 nos.—(NA)

Sh. P.K. Abraham, E-5, Mahalaxmi, Harrington Avenue, Harrington Road, Madras-1—(Dharamapuri-Tamil Nadu)—Textile Spindles—3 lakh Nos. Bolster Inserts—3 lakh nos.—(NU)

M/s Lakshmi Machine Works Ltd., Perianaickenpalayam, S.R.K. Vidyalyaya P.O. Coimbatore-20—(Coimbatore-Tamil Nadu)—Open End Spinning Machines—180 nos.—(NA)

M/s Black Clawson India Engineers Pvt. Ltd., 38/3, Mount Road, Madras-6—(Ranipet, North Arcot Distt. Tamil Nadu)—Pulp & Paper Plant machinery, upto sizes suitable for production of paper between 30 tonnes a day and 200 tonnes a day—1 No. (NU)

Sh. Lala Shri Dhar, 20, Ballyganj Park Road, Calcutta-19—(Ranchi-Bihar)—Drafting Equipment suitable for 1360 Ring Frames—3,00,000 sets.—(NU)

M/s SLM-Maneklal Inds. Ltd., Vatva, Taluka Dascroi Ahmedabad, Gujarat—(Ahmedabad-Gujarat)—Hydraulic presses for metal forming, wood and plastics—20 nos. Hydraulic presses for Rubber and other elastomers—16 nos.—(NA)

M/s Madras Industrial Linnings, 42/19, Harrington Road, Madras-31—(Ambatur-Tamil Nadu)—Scrubber Cyclones, Air Washers, Gas Absorption and Desorption Towers, Humidifiers, Dehumidifiers, Odor Control Equipment, Accessories for above equipment—Rs. 50 lakhs.—(NA)

Sh. V.D. Sharma T-13, Green Park, New Delhi-16—(Alwar-Rajasthan)—Grinding Wheels—3,000 tonnes.—(NU)

M/s Amber Bearing Mfg. Co. Pvt. Ltd., Plot No. G-3 MIDC Indl Area Hingna Road, Nagpur-16—(Nagpur-Maharashtra)—Ball Bearing 3.59 lakhs nos. Cylinder Roller Bearings; 1.44 lakhs nos. Tapered Roller Bearings 0.33 lakh nos.—(NU)

#### Machine Tools

M/s Machine Tool Corpn. of India Ltd., P.B. No. 69, Boawar Road, Ajmer—(Ajmer-Rajasthan)—Horizontal Surface Grinding Machines—40 Nos.—(NA)

M/s Ex-Cell-o India Ltd., 78-B, Dr. Annie Besant Rd, Worli Bombay-18.—(Thana-Maharashtra)—Centreless Grinders—O'mm to 120mm work dia; Internal Grinders for ball bearing industry etc. etc. 17 nos.—(NA)

#### Commercial and Household Equipment

M/s Kerala State Electronics Dev. Corpn. Ltd., 1133, 1134, Sasivihar, Perurkada, Trivandrum—(Trivandrum-Kerala)—Electronic Desk Calculators—5,000 nos.—(NU)

M/s West Bengal Electronics Industry Dev. Corpn. Ltd., 23-A, Netaji Subhas Road, Calcutta-1—(West Bengal)—Electronic Desk Calculators—5,000 nos.—(NU)

#### Mathematical, Surveying and Drawing Instruments

Shri M.M. Chopra, B-258, Greater Kailash-I New Delhi—(Bangalore-Karnataka) Hard Metal and Hard Metal products—50 tonnes.—(NU)

#### Chemicals

Sh. R.K. Raman, 42/19, Harrington Road, Chetput-Madras.—(Distt. Chingleput-Tamil Nadu)—Phosphoric Acid 15,000 tonnes.—(NU)

M/s Cibatul Ltd., P.O. Atul, Distt. Valsad, (W. Rly.) Gujarat—(Valsad-Gujarat)—Epoxy Resins—1260 tonnes.—(SE)

M/s Caustic (India) Ltd., 16A, Hrabourne Road, Calcutta-1—(Dholpur Distt. Bharatpur-Rajasthan)—Trichloroethylene—4,500 tonnes. Porchlaratholene—1,500 tonnes.—(NA)

Sh. Din Dayal Khattar & Sh. Madan Mohan Khattar 53, Shamla Road, Bhopal.—(Bhopal-Madhya Pradesh)—Poly Vinyl Chloride—6,800 tonnes.—(NU)

M/s A.P. Indl. Dev. Corpn. Ltd., B-1-114, Fateh Maidan Rd, Hyderabad—(Andhra Pradesh)—Poly Vinyl Chloride—30,000 tonnes.—(NU)

M/s Shankar Sugar Mills Ltd. 9, Brabourne Road, Calcutta-1—(Deoria-Uttar Pradesh)—Furfural—6,000 tonnes.—(NU)

Sh. R.P. Shah, Steel & Pipe Traders, 519, Loha Bhavan, P. O. Mello Road, Bombay-9—(Medak, Andhr Pradesh)—Galatine—2,000 tonnes.—(NU)

M/s. Dipak Vegetable Oil Industries Pvt. Ltd., Jawahar Road, Manavadar (Gujarat)—(Junagadh-Gujarat)—Oxygen Gas—0.2 million cubic metres.—(NA)

M/s The Indian Cable Company Ltd., 9, Hare Street, Calcutta-1—(Tatanagar Distt. Singhbhum-Bihar) Bitumen base cable compound for joint boxes—600 tones—NA

M/s Deepark Nitrite Ltd., 12-A, Gen. J. Bhonsale Marg, (Foreshore Road), Bombay-1—(Gujarat)—Methanol—20,000 tonnes.—(NU)

M/s Nuchem Plastics Ltd., 20/6, Mile Stone, Mathura Rd, Faridabad-Haryana—(Madhya Pradesh)—Methanol—20,000 tonnes.—(NU)

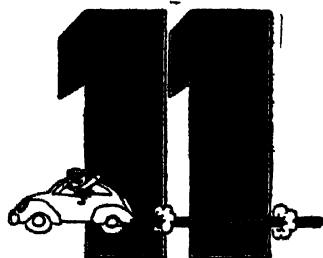
M/s Gujarat Indl. Inv. Corpn. Ltd., 4th Floor, Natraj Chambers, Ashram Road, Ahmedabad—(Gujarat)—Methyl Alcohol—20 000 tonnes.—(NU)

M/s Fertilizer & Chemicals Travancore Ltd., Udyog Mandal, Alwaye, Kerala State—(North Parur-Kerala)—Methanol—30,000 tonnes.—(N.A.)

M/s Saurashtra Salt Works Pvt. Ltd., 6-B, Vulcan Insurance Bldg, Veer Nariman Road, Churchgate, Bombay-20—(Amreli-Gujarat)—Bromine from Bittens—200 tonnes.—(NU)

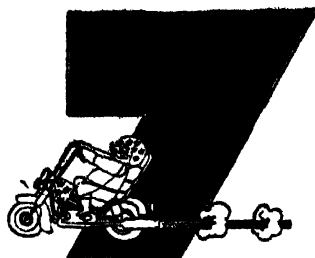
M/s Modi Spng. & Wvg. Mills Co. Ltd., Modinagar-U.P.—(Bhatinda Distt. Punjab)—Caustic Soda—33,000 tonnes; Liquid

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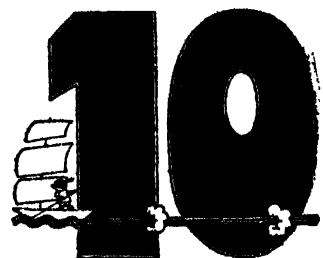
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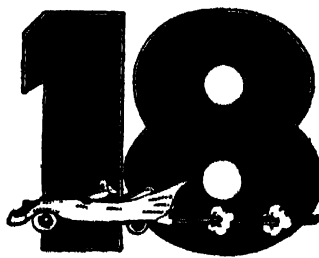
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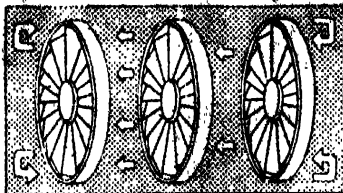
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## It makes all the others obsolete.

The typical fork lift operation is a start-stop-lift-lower process. Unfortunately, most fork lift trucks use conventional automobile transmissions. Not really designed for such operations, these have to be modified for use in fork lift trucks.

Godrej, on the other hand, has constant-mesh gears and a fully automatic hydraulic transmission called Hydratork, at the core of which is a unique torque convertor that multiplies engine output 2.2 times. It's ideal for fork lift operations.

### PERFORMANCE IS OPTIMISED :

You get faster acceleration because of Hydratork. A 4.4:1 pre-reduction gear on the drive axle gives you the greatest tractive power right at the wheels—where it matters most. It also boosts braking power, so you can stop faster and with less effort.

You can even inch these trucks forward—slowly, and with perfect control—while you lift heavy loads at high speeds.

### CONSTRUCTION IS TOUGHER :

Though the Godrej C 500 trucks are rated for only 2.25 and 3 tonnes, their transmission drive line components are rated for 6 tonnes.

And this gives them a tremendous amount of durability and strength.

Enough, in fact, to handle shock and impact overloads under which other trucks break down altogether.

### AND HANDLING IS EASIER :

Even the loads you carry are fully protected, because the heavier the load, the slower its rate of descent. And positive-action control levers, mounted right on the cowl, help your operator go through his day with comfort instead of strain. So you get greater productivity per man hour.

### OUTPUT TO COST RATIO IS HIGHER :

Though a C 500 costs a little more to buy, it works out a lot cheaper in the long run. Because you get consistently reliable performance over a much longer period.

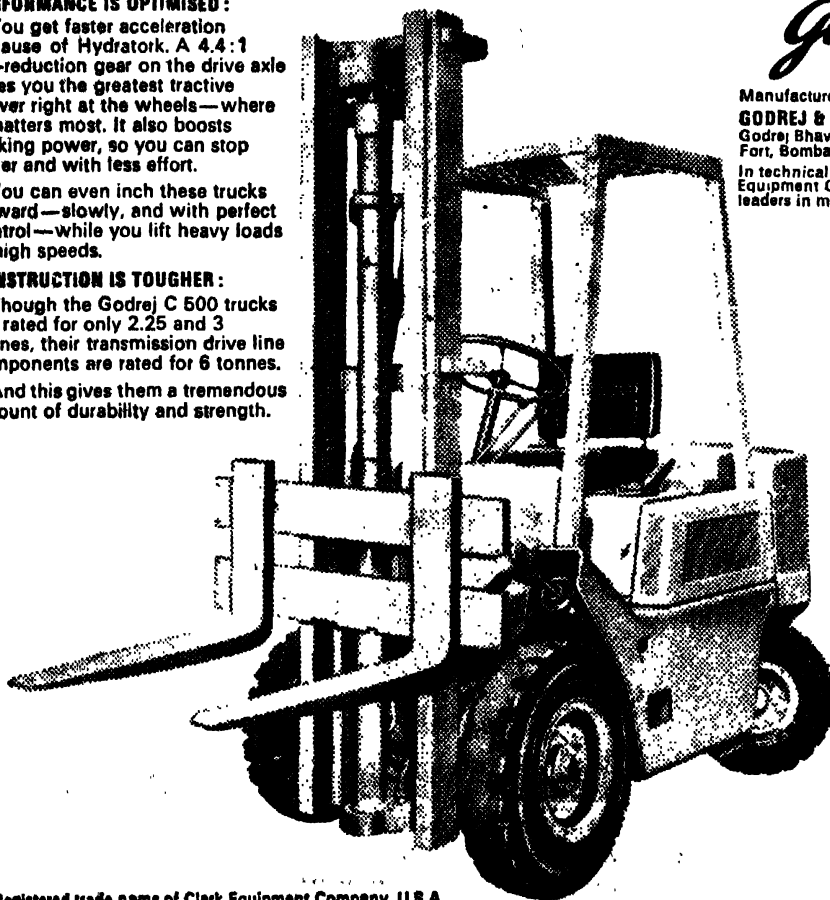


**Godrej** C 500  
DIESEL  
FORK LIFT  
TRUCKS

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leaders in materials handling equipment.



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HT-GS-9009(A)



Chlorine—16,400 tonnes; Hydrochloric Acid—10,000 tonnes.—(NU)

Sh. V. Ravindranath, 6, Linghi Chetty Street, Madras—(Dharampuri Distt. or Ranipet, North Arcot Distt. Tamil Nadu)—Malathion Technical—600 tonnes.—(NU)

M/s Industrial Minerals & Chemicals Company Private Ltd., 125, Narayan Dharu Street, Nagdevi, 125, Bombay-3—(Thana-Maharashtra)—Phenyl Acetic Acid—480 tonnes.—(NA)

The Managing Director, The U.P. State Industrial Development Corpn. Ltd., 117/420 G.T. Road, Kanpur (U.P.)—Uttar Pradesh)—Malathion Technical—500 tonnes.—(NU)

M/s Bengal Chemical and Pharmaceuticals Works Ltd., 6 Ganesh Chander Avenue, Calcutta—(Panihatti, 24 Parganas West Bengal)—Sulphuric Acid—57,750 tonnes.—(SE)

M/s Cynamid India Ltd., Nyloc House, 254/D2 Dr. Annie Besant Road, P.O. Box No. 9100 Bombay-25, DD—(Bulsar-Gujarat)—Cycocel Technical—100 tonnes.—(NA)

M/s J.B. Rupani, C/o. Petrofina Chemical Inds. 184, Shaikh Memon Street, Zaveri Bazar, 2nd floor, Bombay-2—(Tarapur-Maharashtra)—Penterythritol—1200 tonnes; Sodium Formate—500 tonnes.—(NU)

M/s Bharat Pulverising Mills Pvt. Ltd., Div. Basic Minerals & Chemical Hexamar House, 28, Sayani Rd, Bombay-25—(Thana-Maharashtra)—Malathion (Technical)—900 tonnes.—(NA)

M/s Ranbir Chemical Industries Pvt. Ltd., Kharar, Distt. Ropar. (Punjab)—(Ropar-Punjab)—Oxygen Gas (as a bye-product)—0.283 million cubic metres.—(NU)

M/s The Indian Rayon Corporation Ltd., Junagadh-Veraval Road, Veraval-2—(Baroda-Gujarat)—Trichloroethylene—4500 tonnes; Perchloroethylene—1500 tonnes.—(NA)

Sh. P.G.K. Pillai No. 3, Anderson Road, Madras-6—(Tiruvandrum/Palghat-Kerala)—Potassium Chlorate—1000 tonnes; Sodium Chlorate—1000 tonnes.—(NU)

#### Dye-Staffs

M/s Willman (India) Ltd., 'Neville House' Currumbhoy Road, Ballard Estate, Bombay-38—(Kolaba-Maharashtra)—H. Acid 300 MT; Peri & Laurent's 50 MT.; Acid. 1.6 & 1.7; Cleve Acid 50 MT etc. etc.—(NU)

M/s Sudarshan Chemical Industries Pvt. Ltd., 162, Woolesey Road, Sangam Bridge, Poona-1—(Colaba-Maharashtra)—Meta Nitro Aniline 40 tonnes; Ortho Tolidine 60 tonnes; Dichthyle Sniline 60 tonnes; Dimethyle Aniline 300 tonnes.—(NA)

#### Drugs and Pharmaceuticals:

M/s Mehta Pharmaceuticals (P) Ltd., Chheharta (Amritsar, Punjab)—(Amritsar-Punjab)—Paracetamal from Nitrobenzene—100 tonnes.—(NA)

M/s East India Pharmaceuticals Works Ltd., 6, Little Russell St.—(Calcutta-West Bengal)—Sulphacetamide—24 tonnes; Liquid: Cortola & Cortola 'M'—5000 ltrs (after expansion); bulk drug—Sodium Sulphacetam; Locula—79000 ltrs (after expansion); bulk drug Sodium Sulphacetam; Ointment: Cortola—500 Kgs. (after expansion) bulk drug Sodium Sulphacetam; Locula 1000 Kgs (after expansion); bulk drug—Sodium Sulphacetam; Tablets: Rheumim—3 lakh nos (after expansion); bulk drug—Cichophen B. P.; Thalocid 2 lakh nos after expansion, bulk drug—pht-hxyl Sulphacetamide.

Injections: Niamise—500 ltrs (after expansion); bulk drug—Nikethamide; Bhevmiol—330 ltrs (after expansion); bulk drug—Cinchopen.—(SE)

Sh. Narendra K. Khendeshwal, 1/2, Ram Kishore Lane, Civil Lines, Delhi-6—(Fazidabad-Haryana)—Quinolone—200 tonnes; 2/8-Hydroxy Quinolone (Oxina)—80 tonnes.—(NU)

Sh. L. R. Manohar, Post Box No. 1982 I, Thattamuthiap-

pan St. Madras-1—(Madak-Anthusa Pradesh)—Starch—17500 tonnes; Glucose—4200 tonnes; Dextrins—3000 tonnes.—(NU)

#### Textiles

Shri Vinod Singhal, 16/1, Shakti Nagar, Delhi-110007—(Delhi)—Ready-made Garments—3 lakh pieces.—(NU)

M/s Sh. Dinesh Mills Ltd., Padra Road, P.O. Box. No. 65 Baroda-5—(Baroda-Gujarat)—Ready-made Trousers—1,50,000 pieces; Sack Coat/Jackets—75,000 pieces.—(NU)

M/s Managing Director Assam Indl. Dev. Corpn. Ltd., Kannachol Road, Silpukhuri, Gauhati-3—(Barpeta-Assam)—150 sacking looms with laminating facilities; 50 Hessian looms with laminating facilities;—12,660 tonnes Jute goods Hessain and soaking qualities—(NU)

M/s Modella Woolens Ltd., 4-C, Vulcan Insurance Bldg, Veer Nariman Road, Bombay-20—(Thana-Maharashtra)—Men's trousers made out of wool, terry-wool, terry-viscose and other fabrics—3 lakh pieces.—(NA)

M/s Woolcombers of India Ltd., 31, Netaji Subhash Road, Calcutta-1—(Goa)—Ready-made Trousers (made of wool/wool blended/synthetic Fibre)—3,00,000 nos.—(NU)

#### Paper & Pulp

Sh. H. S. Grewal, 102, Sector-9B Chandigarh—(Solan-Himachal Pradesh)—Packing and Wrapping Paper—5,000 tonnes.—(NU)

Sh. Om Parkash Nevatia, 4540, Dhahi Bazar, Bhatinda—(Barwaha-Madhya Pradesh)—Corrugating, M. G. Kraft and wrapping paper—3,300 tonnes.—(NU)

Sh. S. S. Bhatia, 2, Palam Marg, Vasant Vihar, New Delhi-57—(Nadia-West Bengal)—Kraft Paper—10,000 tonnes.—(NU)

Sh. H. P. Goenka, 15, Brabourne Road, Calcutta-1—(Bilaspur-Madhya Pradesh)—Corrugating Medium Kraft Liners & Posters Paper and Boards—6,000 tonnes.—(NU)

Sh. Vishwanath Purshottamdas Kedia, C/o. Nitin Castings Pvt. Ltd. "Shyam Kripa" L. Devidayal Road, Mulund West, Bombay-30—(Silwassa-Dadra & Nagar Haveli)—Paper and Paper Board (writing and printing and kraft paper)—15,000 tonnes.—(NU)

Sh. H. S. Maheswari, Prospect House, 321, Free Road, 2nd Floor, Bombay-1—(Distt. Dhar/Mandsaur/Shajapur-Madhya Pradesh)—Kraft Paper, Corrugating Medium and other wrapping and Packing paper—7,500 tonnes.—(NU)

Sh. Laxminivas Jhunjhunwala, 2/1, Bright Street, Calcutta-19—(Nadia-West Bengal)—Pulp—5000 tonnes Paper (wrapping, packing Kraft and corrugated papers)—5000 tonnes.—(NU)

Sh. Raj I. Garg, 10, Nizamuddin East, New Delhi-13—(Bulandshar-Uttar Pradesh)—Packing, wrapping and corrugated medium papers—3,300 tonnes.—(NU)

Sh. Vijay Krishan 'Meena' Swaroop Nagar, Kanpur-2—(Unnao-Uttar Pradesh)—Kraft Paper—6,600 tonnes.—(NU)

Sh. Sunil Kumar Daga, 8/1, Burdwar Road, Calcutta-27—(Darbhanga-Bihar)—Paper—5000 tonnes.—(NU)

Sh. J. K. Saraf, 306, Kallbadevi Road, Bombay-2—(Thana-Maharashtra)—M. G. Paper—4,000 tonnes.—(NU)

Sh. Surinder Singh Kairon, House No. 28, Sector 4, Chandigarh—(Amritsar-Punjab)—Corrugating media and linear paper (for packing and wrapping)—4,000 tonnes.—(NU)

Sh. D. I. Singh Chaudhri A/88, Defence Colony, New Delhi-24—(Solan-Himachal Pradesh)—Pulp—10,000 tonnes Packing & Wrapping Paper—10000 tonnes.—(NU)

M/s Gangappa Distributing Co. 9-A, Edward Road, Opp. Queens Road, Bangalore-52—(Seringappattam-Karnataka)—Writing & Printing Paper—10,000 tonnes.—(NU)

Sh. Prabhat Panda, Panda & Co. Cuttak-Bhubaneswar Road, Bhubaneswar-6—(Orissa)—Corrugating media and liner paper (for packing and wrapping)—4,000 tonnes.

Sh. R. K. Somani, 41/27, Nanghara, Nayaganj-Kanpur—(Uttar Pradesh)—1. Pulp—5000 tonnes; 2. Unbleached Paper—5,000 tonnes.—(NU)

Sh. Baijnath Bhatler, Bhatler Mansion, 23, Vivekananda Road, Calcutta-7—(Kalaghat, Midnapur-West Bengal)—Pulp—6,600 tonnes; Paper (Packaging papers such as kraft wrapping & packing papers & Boards)—6,600 tonnes.—(NU)

#### Food Processing Industries

M/s Brook Bond India Ltd., 9, Shakespeare Sarani, Calcutta-16—(Maharashtra)—Corned Meat (Main product)—10,740 tonnes; Extracts—400 tonnes Soap Stock Medium—1280 tonnes; Bone Meal—2040 tonnes; Tallow—2120 tonnes; Semin finished and finished leather (out of own raw material)—9 million sq. feet.—(NU)

#### Vegetable Oils and Vanaspathi

Sh. S. N. Dhawan, C/o M/s Machines & Tools Corpn., 67, G. B. Road, Delhi—(Bhatinda-Punjab)—Cotton seed Oil—30,000 tonnes (in terms of cotton seed)—(NU)

M/s Jagdish Chandra Haridas Badiani, C/o M/s Dawn Industries, Opp. Dhree Kent Oil Mills, Badeshwar, Jamnagar-2—(Jamnagar-Gujarat)—Cotton seed oil—15,000 tonnes (in terms of cotton seed).—(NU)

Sh. J. C. Tandon, D-12, Kirti Nagar, New Delhi—(Bhiwani-Hissar-Haryana)—Cotton seed oil—40,000 tonnes in terms of cotton seed.—(NU)

Sh. M. Devaraj (Promotor) No. 47-A, Park Road, Erode-I Coimbatore Distt. (Tamilnadu) M/s Sree Shanmuga Sundaram Traders—(Coimbatore-Tamil Nadu)—Cotton seed oil—18,000 tonnes in terms of cotton seed.—(NU)

M/s Andhra Pradesh State Coop. Marketing Federation Ltd., 5-2-68, Jambagh Hyderabad-1—Karimnagar-Andhra Pradesh)—Groundnut oil and Oil cakes—22,500 tonnes in terms of groundnut seed. (NU)

Sh. Harbans Singh Jalal, Managing Director, M/s Punjab Edibles (P) Ltd., Bhatinda-Punjab—(Bhatinda-Punjab)—Cotton seed oil—30,000 tonnes in terms of cotton seed.—(NU)

#### Rubber Goods

Sh. Nand Khemka, Speedbird House, 'M' Block Connaught Circus, New Delhi-1—(Alwar-Rajasthan)—Pre-cured tread rubber—6,000 tonnes; Bonding, repair and extrusion gums—1,150 tonnes; Rubber cements—300 kilo litres.—(NU)

Sh. V. Jagannathan, 341, Avinashi Road, Pappanaickenpalayam Coimbatore-37—(Tamil Nadu)—Synthetic Rubber Cots—2 lakh metres; Synthetic Rubber Aprons—2 lakh metres.—(NU)

#### Leather and Leather Goods

M/s National Tannery Co. Ltd., 1, Middleton Street, Calcutta-16—(24 Parganas-West Bengal)—Leather Garments—3,00,000 pieces.—(NA)

#### Glue and Gelatin

M/s Bihar State Leather Industries Dev. Corpn (P) Ltd., Patna-Bihar—(Muzaffarpur-Bihar)—Gelatin—450 tonnes; Glue—450 tonnes.—(NU)

M/s Kerala State Indl. Dev. Corpn. Ltd., P. B. No. 105, Sasthamangalam, Trivandrum (Kerala)—Ossein—2210 tonnes Dicalcium Phosphate—4250 tonnes.—(NU)

#### Glass

M/s Premier Scientific Mfg. Co. No. 9, Nilkamal Banglow, Patidar Society, Ellisbridge, Near Panchvaty, Ahmedabad—(Kalol-Gujarat)—Scientific & Laboratory Glassware including Borrosilicate Bottles—12,000 tonnes.—(NU)

#### Ceramics

M/s Koolaire (P) Ltd., 44, Janpath, New Delhi—(Ghaziabad-Uttar Pradesh)—Sanitary ware (Pottary type)—3,000 tonnes; Sanitary Ware (Enamelled Steel Type, Bath Tube and Sinks)—3,000 tonnes.—(NU)

#### Cement and Gypsum Products

M/s Juggilal Kamlapat jute Mills Co. Ltd., Kamla Tower Kanpur—(Kanpur-Uttar Pradesh)—Portland Pozzolana Cement—1,00,000 tonnes.—(NU)

#### Change in Names (Owners/Undertaking)

(Information pertains to particular licences only)

From Sir. Shedi Lal Sugar & General Mills Ltd., Muzaffarnagar—to Swarup Vegetable Products Industries Ltd.,

From The Ganga Sugar Corpn, Ltd., Deoria—to M/s Gangeshwar Limited.

From M/s Electro Metallurgical Works Ltd.,—to M/s The Dandali Ferro Alloys Pvt. Limited., Bombay.

From Punjab State Industrial Dev. Corpn. Ltd., Chandigarh—to M/s Stepan Chemicals Ltd.,

From M/s Swadeshi Detergents Delhi—to M/s Swadesh Detergents Pvt. Ltd., Bombay.

From M/s Somani Steels Ltd.,—to M/s Somani Wires Limited., Kanpur.

From Indian Detenators Ltd.,—to M/s IDL Chemicals Ltd., Hyderabad.

From M/s Binny Engg. Works Ltd.,—to M/s Binny Ltd., Madras.

From M/s The Chikodi Raibag and Athani Taluk Rayat Sahakari Sakhare Karkhana Niyamit Raibag—to Raibag Sahakari Sakhare Karkhane Niyamit, Raibag.

From Gujarat State Federation of Co-op Spng. Mills Ltd., Ahmedabad-9—to Panchmahal Distt. Co-op Spng. Mills Ltd., Panchmahal, Gujarat.

From Gujarat State Federation of Co-op. Spng. Mills Ltd., Ahmedabad-9—to Visnagar Taluka Majoor Sahakari Mandal Co-op Spng. Mills, Vibhag, Mehsana (Guj.)

From Suraj Mal Mohta Calcutta-1—to M/s Mohta Paper Mills Ltd., Madhya Pradesh.

#### Licences Revoked/Surrendered

(Information pertains to particular licences only)

M/s Steyr India Ltd., New Delhi—(Revoked)—Agricultural Tractors.—(Revoked)

M/s Kovilapatti Lakshmi Rollar Flour Mills Ltd.—Biscuits—(Surrendered)

#### Letters of Intent Revoked/Rejected etc.

(Information pertains to particular letters of intent only)

M/s Krishna Ragunath Shetye & Sons, Radha Krishna Sadan, Bicholim, Goa—(Goa)—Isuzu Elf Pick up.

M/s Standard Batteries Vakolo, Santa Cruz, Bombay-55—(Maharashtra)—Self-propelled high lift passenger loader etc.

M/s Indoccean Engineers Pvt. Ltd., Raj Bhavan Road, Hyderabad-4—Loudspeakers cones.

M/s Decor Steel (P) Ltd., 71, Industrial Area, Chandigarh—(Haryana)—Automobile Wheels.

Sh. Virender Singh, 5/9, Kirti Nagar, Industrial Area, Delhi-15—Automobile Gears

M/s Triveni Engg. Works Ltd., National Insurance Bldg, 1st Floor, New Delhi-1—(Maharashtra)—Pentaerythritol.

Sh Davinder Singh Grewal K-55, Connaught Circus, New Delhi—(Delhi)—Rock Roller Bits.

M/s German Remedies Ltd., Bombay—Neogynon Tablets.

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# RECORDS AND STATISTICS

## National product and capital formation in 1972-73

ACCORDING to the Central Statistical Organisation White Paper on National Income Statistics, India's national income in 1972-73 at constant (1960-61) prices is estimated

at Rs 19,130 crores. This is Rs 169 crores less than the national income in 1971-72. There has thus been a fall of 0.9 per cent in the total income between the two years. The per capita income declined by 3.2 per cent over the same period.

The fall in national income in 1972-73 is mainly on account of the fall in the production of foodgrains. This has resulted in an appreciable fall in the domestic product of the agricultural sector—about 7.8 per cent as compared to the previous year. The increases registered by other sectors were not adequate enough to off set fully the decline in the agricultural sector.

Table I gives the levels of

national income and per capita income at current and at 1960-61 prices for the period 1960-61 to 1972-73. The variations in the rates of growth of national income as well as per capita income shown in the table are mainly due to fluctuations in the output from agriculture. Over the period 1960-61 to 1972-73 national income increased by about three per cent per annum on the average and the per capita income by about 1 per cent.

Table II presents the percentage composition of net domestic product at constant prices by broad sectors and throws light on changes in the structure of the economy over the period. The primary sector (agriculture, forestry, fishery and mining) which accounts for as much as 52 per cent of the net domestic product in 1960-61 has come down to around 44 per cent in 1965-66 and has continued to be at the same level since then (except in 1972-73 when there was a sharp fall in agricultural production). The secondary sector (manufacturing, construction, electricity, gas and water supply)

has increased its share from 19 per cent in 1960-61 to 23.3 per cent in 1965-66 with no subsequent change thereafter. There has been gradual increase in the share of the trade and transport sector which has increased from 14 per cent in 1960-61 to 16.6 per cent in 1972-73.

The White Paper on National Income also furnishes the details of domestic saving, capital formation and the economic activities of the public sector for the period 1960-61 to 1972-73. The level of total domestic saving in the economy at current prices has increased from Rs 1,324 crores in 1960-61 to Rs 5,140 crores in 1972-73. During the same period net domestic capital formation has increased from Rs 1,805 crores to Rs 5,441 crores. The difference between saving and capital formation is covered by net capital inflow from abroad. Table III below gives the rates of net domestic saving and net domestic capital formation over the period 1960-61 to 1972-73. In 1972-73 the rates of saving and capital formation have been 11.6 per cent and 12.2 per cent respectively as compared

TABLE I  
Estimates of National Product, 1960-61 to 1972-73

| Year     | National product at factor cost |                 |                              |                 | Percentage increase over the previous year (at 1960-61 prices) |            |
|----------|---------------------------------|-----------------|------------------------------|-----------------|----------------------------------------------------------------|------------|
|          | at current prices               |                 | at constant (1960-61) prices |                 |                                                                |            |
|          | total (Rs crores)               | per capita (Rs) | total (Rs crores)            | per capita (Rs) | total                                                          | per capita |
| (1)      | (2)                             | (3)             | (4)                          | (5)             | (6)                                                            | (7)        |
| 1960-61  | 13267                           | 305.7           | 13267                        | 305.7           | —                                                              | —          |
| 1961-62  | 13991                           | 315.1           | 13732                        | 309.3           | 3.5                                                            | 1.2        |
| 1962-63  | 14796                           | 325.9           | 13994                        | 308.2           | 1.9                                                            | (—) 0.4    |
| 1963-64  | 16975                           | 365.8           | 14769                        | 318.3           | 5.5                                                            | 3.3        |
| 1964-65  | 20000                           | 421.9           | 15884                        | 335.1           | 7.5                                                            | 5.3        |
| 1965-66  | 20636                           | 425.5           | 15081                        | 310.9           | (—) 5.1                                                        | (—) 7.2    |
| 1966-67  | 23810                           | 481.0           | 15257                        | 308.2           | 1.2                                                            | (—) 0.9    |
| 1967-68  | 28166                           | 556.6           | 16616                        | 328.4           | 8.9                                                            | 6.6        |
| 1968-69  | 28859                           | 557.1           | 17180                        | 331.7           | 3.4                                                            | 1.0        |
| 1969-70  | 31968                           | 604.3           | 18152                        | 343.1           | 5.7                                                            | 3.4        |
| 1970-71* | 34627                           | 640.1           | 19035                        | 351.8           | 4.9                                                            | 2.5        |
| 1971-72* | 36599                           | 660.6           | 19299                        | 348.4           | 1.4                                                            | (—) 1.0    |
| 1972-73* | 39592                           | 698.3           | 19130                        | 337.4           | (—) 0.9                                                        | (—) 3.2    |

\*provisional

to 10.4 per cent and 11.5 per cent in the previous year.

Table IV gives the share of the public sector in net domestic product at current prices for the period 1960-61 to 1972-73. The total share of the public sector comprises government administration (centre, state and local bodies) and departmental and non-departmental enterprises. This has shown a consistent increase over the period. Thus, it forms about 15.9 per cent of the total net domestic product in 1972-73 against 10.6 per cent in 1960-61. Within the public sector, the net domestic product of the non-departmental enterprises has registered the maximum rise, increasing from Rs 165 crores in 1960-61 to Rs 1,832 crores

in 1972-73. This increase is partly due to setting up of new industries or expansion of the existing enterprises in the public sector and partly due to the extension of the domain of the public sector for example, by nationalisation of insurance and banking and conversion of departmental electricity boards and private companies into non-departmental electricity undertakings.

An analysis of the performance of the public sector shows that its total saving over the period has increased from Rs 309 crores in 1960-61 to Rs 814 crores in 1972-73 and the total gross capital formation from Rs 1,142 crores to Rs 3,604 crores the capital formation in the

public sector has throughout been in excess of net saving thus showing income deficit over the whole period.

Besides data on national product, capital formation and saving, the present White Paper includes, for the first time, estimates of private consumption expenditure at current and constant prices and details of classification of general government expenditure (centre and states) and details of activities of non-departmental enterprises. However, it has been possible to present this analysis till 1970-71 only. Private consumption expenditure is estimated at Rs 30,629 crores in 1970-71 accounting for 80 per cent of the total national expenditure. This is somewhat lower than

the proportion in 1960-61 which is of the order of 86 per cent. There has been little shift in the pattern of consumption, the food items generally accounting for the major share of the expenditure.

The purpose classification of general government expenditure shows that in 1970-71 economic service account for 30 per cent of the total expenditure, defence (including internal security) for 19 per cent, education and general government 16 per cent each, and health and housing 3 and 4 per cent respectively. In the case of capital expenditure, however, the pattern is somewhat different, economic services accounting for as much as 59 per cent of the total.

TABLE II

Composition of Net Domestic Product at Constant Prices by Broad Sectors

| Year     | primary | secondary | tertiary                                   |                       |                                 |
|----------|---------|-----------|--------------------------------------------|-----------------------|---------------------------------|
|          |         |           | trade, transport, storage & communications | finance & real estate | community and personal services |
| (1)      | (2)     | (3)       | (4)                                        | (5)                   | (6)                             |
| 1960-61  | 52.2    | 19.1      | 14.0                                       | 4.2                   | 10.5                            |
| 1961-62  | 50.9    | 19.8      | 14.5                                       | 4.2                   | 10.6                            |
| 1962-63  | 48.7    | 20.8      | 15.0                                       | 4.3                   | 11.2                            |
| 1963-64  | 47.4    | 21.7      | 15.2                                       | 4.3                   | 11.4                            |
| 1964-65  | 47.9    | 21.6      | 15.1                                       | 4.1                   | 11.3                            |
| 1965-66  | 43.8    | 23.3      | 16.2                                       | 4.4                   | 12.3                            |
| 1966-67  | 42.6    | 23.8      | 16.4                                       | 4.4                   | 12.8                            |
| 1967-68  | 45.4    | 22.7      | 15.7                                       | 4.0                   | 12.2                            |
| 1968-69  | 44.4    | 23.2      | 16.0                                       | 4.1                   | 12.3                            |
| 1969-70  | 44.6    | 23.1      | 15.9                                       | 4.0                   | 12.4                            |
| 1970-71* | 45.8    | 22.1      | 15.6                                       | 4.0                   | 12.5                            |
| 1971-72* | 44.4    | 22.2      | 15.9                                       | 4.2                   | 13.3                            |
| 1972-73* | 41.7    | 23.3      | 16.6                                       | 4.4                   | 14.0                            |

\*provisional

Note: Primary covers agriculture and allied activities, forestry, fishery and mining and quarrying, while secondary covers manufacturing (registered & unregistered), construction, electricity, gas and water supply.

**TABLE III**  
**Rates of Domestic Saving and Capital Formation**  
(at current prices)

| Year     | per cent of net domestic product at market prices |                            |
|----------|---------------------------------------------------|----------------------------|
|          | domestic saving                                   | domestic capital formation |
| 1960-61  | 9.3                                               | 12.6                       |
| 1961-62  | 8.4                                               | 10.7                       |
| 1962-63  | 9.5                                               | 12.3                       |
| 1963-64  | 9.8                                               | 12.2                       |
| 1964-65  | 9.2                                               | 12.0                       |
| 1965-66  | 11.2                                              | 13.8                       |
| 1966-67  | 11.9                                              | 15.5                       |
| 1967-68  | 9.3                                               | 12.1                       |
| 1968-69  | 10.4                                              | 11.7                       |
| 1969-70  | 11.5                                              | 12.2                       |
| 1970-71* | 12.4                                              | 13.5                       |
| 1971-72* | 10.4                                              | 11.5                       |
| 1972-73* | 11.6                                              | 12.2                       |

\*provisional

**TABLE IV**  
**Share of Public Sector in Net Domestic Product**  
(at current prices)  
(per cent)

| Year     | government administration | departmental enterprises | non-departmental enterprises | total |
|----------|---------------------------|--------------------------|------------------------------|-------|
| 1960-61  | 5.5                       | 3.9                      | 1.2                          | 10.6  |
| 1961-62  | 5.9                       | 4.1                      | 1.4                          | 11.4  |
| 1962-63  | 6.2                       | 4.3                      | 1.8                          | 12.3  |
| 1963-64  | 6.2                       | 4.3                      | 2.0                          | 12.5  |
| 1964-65  | 6.0                       | 3.9                      | 1.9                          | 11.8  |
| 1965-66  | 6.6                       | 4.3                      | 2.3                          | 13.2  |
| 1966-67  | 6.4                       | 4.0                      | 2.4                          | 12.8  |
| 1967-68  | 6.3                       | 3.6                      | 2.3                          | 12.2  |
| 1968-69  | 6.7                       | 4.0                      | 2.8                          | 13.5  |
| 1969-70  | 6.8                       | 3.9                      | 3.2                          | 13.9  |
| 1970-71* | 6.9                       | 3.9                      | 3.7                          | 14.5  |
| 1971-72* | 7.3                       | 4.0                      | 4.1                          | 15.4  |
| 1972-73* | 7.4                       | 3.9                      | 4.6                          | 15.9  |

\*provisional

**TABLE V**  
**National Product at Factor Cost Saving and Capital Formation**

| Item                                                        | 1960-61 | 1965-66 | 1969-70 | 1970-71* | 1971-72* | 1972-73* |
|-------------------------------------------------------------|---------|---------|---------|----------|----------|----------|
| 1. net national product (nnp) (Rs crores)                   |         |         |         |          |          |          |
| 1.1 at current prices                                       | 13267   | 20636   | 31968   | 34627    | 36599    | 39592    |
| 1.2 at 1960-61 prices                                       | 13267   | 15081   | 18152   | 19035    | 19299    | 19130    |
| 2. estimated population (million)                           | 434     | 485     | 529     | 541      | 554      | 567      |
| 3. per capita net national product (Rs)                     |         |         |         |          |          |          |
| 3.1 at current prices                                       | 305.7   | 425.5   | 604.3   | 640.1    | 660.6    | 698.3    |
| 3.2 at 1960-61 prices                                       | 305.7   | 310.9   | 343.1   | 351.8    | 348.4    | 337.4    |
| 4. net domestic saving (nds) (Rs crores)                    |         |         |         |          |          |          |
| at current prices                                           | 1324    | 2564    | 4048    | 4784     | 4246     | 5140     |
| 5. net domestic capital formation (ndcf) (Rs crores)        |         |         |         |          |          |          |
| 5.1 at current prices                                       | 1805    | 3164    | 4290    | 5175     | 4729     | 5441     |
| 5.2 at 1960-61 prices                                       | 1805    | 2509    | 2646    | 2979     | 2582     | 2788     |
| 6. gross domestic capital formation (Rs crores)             |         |         |         |          |          |          |
| 6.1 at current prices                                       | 2541    | 4393    | 6205    | 7278     | 7029     | 7985     |
| 6.2 at 1960-61 prices                                       | 2541    | 3540    | 3938    | 4309     | 3955     | 4232     |
| 7. rate of saving (per cent)                                | 9.3     | 11.2    | 11.5    | 12.4     | 10.2     | 11.6     |
| 8. rate of capital formation (per cent)                     | 12.6    | 13.8    | 12.2    | 13.5     | 11.5     | 12.2     |
| 9. private final consumption expenditure (pfce) (Rs crores) |         |         |         |          |          |          |
| 9.1 at current prices                                       | 12210   | 18390   | 28650   | 30629    | NA       | NA       |
| 9.2 at 1960-61 prices                                       | 12210   | 13084   | 15631   | 16039    | NA       | NA       |
| 10. per capita final consumption expenditure (Rs)           |         |         |         |          |          |          |
| 10.1 at current prices                                      | 281     | 379     | 540     | 565      | NA       | NA       |
| 10.2 at 1960-61 prices                                      | 281     | 270     | 295     | 296      | NA       | NA       |
| 11. index number (1960-61=100)                              |         |         |         |          |          |          |
| 11.1 nnp at current prices                                  | 100.0   | 155.5   | 241.0   | 261.0    | 275.9    | 298.4    |
| 11.2 nnp at 1960-61 prices                                  | 100.0   | 113.7   | 136.8   | 143.5    | 145.5    | 144.2    |
| 11.3 nds at current prices                                  | 100.0   | 193.7   | 305.7   | 361.3    | 320.7    | 388.2    |
| 11.4 ndcf at current prices                                 | 100.0   | 175.3   | 237.7   | 286.7    | 262.0    | 301.4    |
| 11.5 ndcf at 1960-61 prices                                 | 100.0   | 139.0   | 146.6   | 165.0    | 143.0    | 154.5    |
| 11.6 pfce at current prices                                 | 100.0   | 150.6   | 234.6   | 250.9    | NA       | NA       |
| 11.7 pfce at 1960-61 prices                                 | 100.0   | 107.2   | 128.0   | 131.4    | NA       | NA       |
| 11.8 per capita nnp at current prices                       | 100.0   | 139.2   | 197.7   | 209.4    | 216.1    | 228.4    |
| 11.9 per capita nnp at 1960-61 prices                       | 100.0   | 101.7   | 112.2   | 115.1    | 114.0    | 110.4    |
| 11.10 per capita pfce at current prices                     | 100.0   | 134.9   | 192.2   | 201.1    | NA       | NA       |
| 11.11 per capita pfce at 1960-61 prices                     | 100.0   | 96.1    | 105.0   | 105.3    | NA       | NA       |

\* provisional NA not available

TABLE VI  
Net Domestic Product at Factor Cost by Industry of Origin  
(at current prices)

| Industry                                                         | 1960-61      | 1965-66      | 1969-70*     | 1970-71*     | 1971-72*     | 1972-73*     |
|------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 1. agriculture                                                   | 6580         | 9534         | 15423        | 16533        | 16976        | 18078        |
| 2. forestry and logging                                          | 174          | 317          | 400          | 448          | 500          | 531          |
| 3. fishing                                                       | 77           | 122          | 212          | 237          | 258          | 293          |
| 4. mining and quarrying                                          | 134          | 221          | 341          | 351          | 370          | 400          |
| <b>sub-total: primary</b>                                        | <b>6965</b>  | <b>10941</b> | <b>16376</b> | <b>17569</b> | <b>18104</b> | <b>19302</b> |
| 5. manufacturing                                                 | 1856         | 3014         | 4358         | 4770         | 5179         | 5721         |
| 5.1 registered                                                   | 1071         | 1822         | 2708         | 2946         | 3235         | 3604         |
| 5.2 unregistered                                                 | 785          | 1192         | 1650         | 1824         | 1944         | 2117         |
| 6. construction                                                  | 625          | 1060         | 1761         | 1901         | 2009         | 2141         |
| 7. electricity, gas and water supply                             | 68           | 144          | 281          | 313          | 334          | 366          |
| <b>sub-total: secondary</b>                                      | <b>2549</b>  | <b>4218</b>  | <b>6400</b>  | <b>6984</b>  | <b>7522</b>  | <b>8228</b>  |
| 8. transport, storage & communication                            | 576          | 942          | 1471         | 1601         | 1737         | 1837         |
| 8.1 railways                                                     | 252          | 400          | 503          | 535          | 590          | 579          |
| 8.2 transport by other means and storage                         | 261          | 429          | 767          | 830          | 885          | 985          |
| 8.3 communication                                                | 63           | 113          | 201          | 236          | 262          | 273          |
| 9. trade and hotels & restaurants                                | 1294         | 2231         | 3396         | 3678         | 3904         | 4410         |
| <b>sub-total: transport communication and trade</b>              | <b>1870</b>  | <b>3173</b>  | <b>4867</b>  | <b>5279</b>  | <b>5641</b>  | <b>6247</b>  |
| 10. banking and insurance                                        | 160          | 346          | 539          | 636          | 755          | 847          |
| 11. real estate and ownership of dwellings and business services | 392          | 574          | 650          | 696          | 745          | 830          |
| <b>sub-total: finance and real estate</b>                        | <b>552</b>   | <b>920</b>   | <b>1189</b>  | <b>1332</b>  | <b>1500</b>  | <b>1677</b>  |
| 12. public administration and defence                            | 538          | 989          | 1503         | 1635         | 1832         | 1992         |
| 13. other services                                               | 861          | 1307         | 1905         | 2110         | 2280         | 2453         |
| <b>sub-total: community and personal services</b>                | <b>1399</b>  | <b>2296</b>  | <b>3408</b>  | <b>3745</b>  | <b>4112</b>  | <b>4445</b>  |
| <b>4. total: net domestic product at factor cost</b>             | <b>13335</b> | <b>20801</b> | <b>32240</b> | <b>34909</b> | <b>36879</b> | <b>39899</b> |

\* provisional

TABLE VII  
Net Domestic Product at Factor Cost by Industry of Origin  
(at 1960-61 price)

| Industry                                                           | 1960-61      | 1965-66      | 1969-70      | 1970-71*     | 1971-72*     | 1972-73*     |
|--------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 1. agriculture                                                     | 6580         | 6148         | 7612         | 8208         | 8031         | 7409         |
| 2. forestry & logging                                              | 174          | 240          | 250          | 267          | 282          | 297          |
| 3. fishing                                                         | 77           | 91           | 106          | 108          | 113          | 119          |
| 4. mining & quarrying                                              | 134          | 188          | 214          | 212          | 222          | 231          |
| <b>sub-total: primary</b>                                          | <b>6965</b>  | <b>6667</b>  | <b>8182</b>  | <b>8795</b>  | <b>8648</b>  | <b>8056</b>  |
| 5. manufacturing                                                   | 1856         | 2557         | 2975         | 2989         | 3041         | 3167         |
| 5.1 registered                                                     | 1071         | 1585         | 1858         | 1839         | 1884         | 1981         |
| 5.2 unregistered                                                   | 785          | 972          | 1117         | 1150         | 1157         | 1186         |
| 6. construction                                                    | 625          | 865          | 1076         | 1068         | 1071         | 1102         |
| 7. electricity, gas & water supply                                 | 68           | 131          | 181          | 195          | 214          | 230          |
| <b>sub-total: secondary</b>                                        | <b>2549</b>  | <b>3553</b>  | <b>4232</b>  | <b>4252</b>  | <b>4326</b>  | <b>4499</b>  |
| 8. transport, storage and communication                            | 576          | 788          | 957          | 981          | 1039         | 1092         |
| 8.1 railways                                                       | 252          | 340          | 388          | 391          | 418          | 423          |
| 8.2 transport by other means & storage                             | 261          | 352          | 449          | 463          | 487          | 528          |
| 8.3 communication                                                  | 63           | 96           | 120          | 127          | 134          | 141          |
| 9. trade, hotels & restaurants                                     | 1294         | 1681         | 1961         | 2017         | 2060         | 2113         |
| <b>sub-total: transport, communication &amp; trade</b>             | <b>1870</b>  | <b>2469</b>  | <b>2918</b>  | <b>2998</b>  | <b>3099</b>  | <b>3205</b>  |
| 10. banking & insurance                                            | 160          | 223          | 283          | 310          | 348          | 370          |
| 11. real estate & ownership of dwellings & business services       | 392          | 443          | 454          | 459          | 467          | 475          |
| <b>sub-total: finance &amp; real estate</b>                        | <b>552</b>   | <b>666</b>   | <b>737</b>   | <b>769</b>   | <b>815</b>   | <b>845</b>   |
| 12. public administration & defence                                | 538          | 823          | 1055         | 1144         | 1288         | 1372         |
| 13. other services                                                 | 861          | 1056         | 1214         | 1261         | 1303         | 1345         |
| <b>sub-total: community &amp; personal services</b>                | <b>1399</b>  | <b>1879</b>  | <b>2269</b>  | <b>2405</b>  | <b>2591</b>  | <b>2717</b>  |
| <b>4. total: net domestic product at factor cost</b>               | <b>13335</b> | <b>15234</b> | <b>18338</b> | <b>19219</b> | <b>19479</b> | <b>19322</b> |
| 5. net factor income from abroad                                   | (-) 68       | (-) 153      | (-) 186      | (-) 184      | (-) 180      | (-) 192      |
| <b>5. total: net national product</b>                              | <b>13267</b> | <b>15081</b> | <b>18152</b> | <b>19035</b> | <b>19299</b> | <b>19130</b> |
| 6. population: (million)                                           | 434          | 485          | 529          | 541          | 554          | 567          |
| <b>6. per capita net national product = per capita income (Rs)</b> | <b>305.7</b> | <b>310.9</b> | <b>343.1</b> | <b>351.8</b> | <b>348.4</b> | <b>337.4</b> |

\* provisional



**TABLE VIII**  
**Domestic Saving (at current prices)**

|                                                                |         | (Rs crores) |         |          |          |          |
|----------------------------------------------------------------|---------|-------------|---------|----------|----------|----------|
| item                                                           | 1960-61 | 1965-66     | 1969-70 | 1970-71* | 1971-72* | 1972-73* |
| 1. household sector                                            | 901     | 1871        | 3256    | 3736     | 3210     | 4135     |
| 1.1 currency                                                   | 145     | 285         | 335     | 347      | 378      | 587      |
| 1.2 net deposits                                               | 11      | 309         | 97      | 291      | 412      | 563      |
| 1.3 investment in shares & debentures                          | 67      | 775         | 30      | 53       | 16       | 62       |
| 1.4 not claims on govt. sector                                 | 57      | (—) 9       | (—) 105 | 21       | 27       | 184      |
| 1.5 life insurance funds                                       | 50      | 96          | 160     | 189      | 212      | 258      |
| 1.6 provident funds                                            | 126     | 216         | 389     | 461      | 529      | 564      |
| 1.7 physical assets                                            | 445     | 799         | 2350    | 2374     | 1636     | 1917     |
| 2. private corporate sector                                    | 114     | 101         | 147     | 216      | 232      | 191      |
| 2.1 non-govt. corporate sector                                 | 105     | 85          | 121     | 195      | 208      | 165      |
| 2.2 co-operative banks & societies                             | 9       | 16          | 26      | 21       | 24       | 26       |
| 3. public sector                                               | 309     | 592         | 645     | 832      | 804      | 814      |
| 3.1 govt. administration & departmental commercial enterprises | 298     | 542         | 626     | 749      | 704      | 673      |
| 3.2 govt. companies and statutory corporations                 | 11      | 50          | 19      | 83       | 64       | 141      |
| 4. total net domestic saving (1)+(2)+(3)                       | 1324    | 2564        | 4048    | 47864    | 4246     | 5140     |

\*provisional

**TABLE IX**  
**Domestic Capital Formation (at current prices)**

|                                                                             |         | (Rs crores) |         |          |          |          |
|-----------------------------------------------------------------------------|---------|-------------|---------|----------|----------|----------|
| item                                                                        | 1960-61 | 1965-66     | 1969-70 | 1970-71* | 1971-72* | 1972-73* |
| 1. total gross fixed domestic capital formation                             | 2156    | 4132        | 6083    | 6419     | 6978     | 7714     |
| 1.1 construction                                                            | 1337    | 2360        | 3793    | 3985     | 4194     | 4569     |
| (a) public sector                                                           | 676     | 1377        | 1499    | 1756     | 2095     | 2560     |
| (b) private sector                                                          | 661     | 983         | 2294    | 2229     | 2099     | 2009     |
| 1.2 machinery & equipment                                                   | 819     | 1772        | 2290    | 2434     | 2784     | 3145     |
| (a) public sector                                                           | 379     | 669         | 691     | 678      | 833      | 1036     |
| (b) private sector                                                          | 440     | 1103        | 1599    | 1756     | 1951     | 2109     |
| 2. changes in stocks                                                        | 427     | 295         | 453     | 754      | 388      | 345      |
| (a) public sector                                                           | 87      | 170         | 69      | 376      | 321      | 8        |
| (b) private sector                                                          | 340     | 125         | 384     | 378      | 67       | 337      |
| 3. total gross domestic capital formation                                   | 2583    | 4427        | 6536    | 7173     | 7366     | 8059     |
| (a) public sector                                                           | 1142    | 2216        | 2259    | 2810     | 3249     | 3604     |
| (b) private sector                                                          | 1441    | 2211        | 4277    | 4363     | 4117     | 4455     |
| 4. less consumption of fixed capital                                        | 736     | 1229        | 1915    | 2103     | 2300     | 2544     |
| (a) public sector                                                           | 116     | 217         | 389     | 420      | 453      | 510      |
| (b) private sector                                                          | 620     | 1012        | 1526    | 1683     | 1847     | 2034     |
| 5. total net domestic capital formation                                     | 1847    | 3198        | 4621    | 5070     | 5066     | 5515     |
| (a) public sector                                                           | 1026    | 1999        | 1870    | 2390     | 2796     | 3094     |
| (b) private sector                                                          | 821     | 1199        | 2751    | 2690     | 2270     | 2421     |
| 6. errors & omissions                                                       | (—)42   | (—)34       | (—)331  | (+ )105  | (—)337   | (—)74    |
| 7. total net domestic capital formation adjusted for errors & omissions     | 1805    | 3164        | 4290    | 5175     | 4729     | 5441     |
| 8. total gross domestic capital formation adjusted for errors and omissions | 2541    | 4393        | 6205    | 7278     | 7029     | 7985     |

\*provisional

**TABLE X**  
**Private Consumption Expenditure by Object**  
(at current prices)

|                                   |         |         |         |         | (Rs crores)                                        |         |         |         |         |
|-----------------------------------|---------|---------|---------|---------|----------------------------------------------------|---------|---------|---------|---------|
| items                             | 1960-61 | 1965-66 | 1969-70 | 1970-71 | items                                              | 1960-61 | 1965-66 | 1969-70 | 1970-71 |
| (1)                               | (2)     | (3)     | (4)     | (5)     | (1)                                                | (2)     | (3)     | (4)     | (5)     |
| 1. food                           |         |         |         |         | 2. pan, tobacco & intoxicants                      | 795     | 921     | 1304    | 1389    |
| 1.1 cereal and cereal substitutes | 3499    | 5014    | 8543    | 8917    | 3. clothing                                        | 790     | 1171    | 1612    | 1712    |
| 1.2 milk and milk product         | 946     | 1412    | 2110    | 2244    | 4. fuel and light                                  | 479     | 887     | 1113    | 1250    |
| 1.3 edible oil                    | 478     | 768     | 1233    | 1629    | 5. rent                                            | 643     | 922     | 1212    | 1318    |
| 1.4 meat, egg and fish            | 336     | 612     | 807     | 774     | 6. taxes                                           | 10      | 10      | 17      | 20      |
| 1.5 sugar                         | 582     | 948     | 1237    | 1393    | 7. miscellaneous                                   | 1916    | 3059    | 4831    | 5302    |
| 1.6 salt                          | 25      | 36      | 49      | 72      | 8. total                                           | 12210   | 18390   | 28650   | 30629   |
| 1.7 other food                    | 1711    | 2630    | 4582    | 4609    | 9. per capita private consumption expenditure (Rs) | 281     | 379     | 540     | 565     |
| 1.8 total                         | 7577    | 11420   | 18561   | 19638   |                                                    |         |         |         |         |

*Note:* Estimates for private non-profit institutions, expenditure of residents abroad and expenditure of nonresidents in the country are not separately available due to lack of data. However, estimates for private non-profit institutions are implicit in the private consumption expenditure given in this table which have been arrived at by the commodity-flow method and are provisional.

**TABLE XI**  
**Share of Public Sector in Domestic Product**  
(at current prices)

|                                                     |         |         |         |            |          |          | (Rs crores) |
|-----------------------------------------------------|---------|---------|---------|------------|----------|----------|-------------|
| item                                                | 1960-61 | 1965-66 | 1969-70 | 1970-71*   | 1971-72* | 1972-73* |             |
| (1)                                                 | (2)     | (3)     | (4)     | (5)        | (6)      | (7)      |             |
| 1. gross product of public sector                   | 1538    | 2960    | 4860    | 5467       | 6144     | 6867     |             |
| 1.1 govt. administration                            | 735     | 1367    | 2193    | 2401       | 2698     | 2965     |             |
| 1.2 departmental enterprises                        | 586     | 973     | 1336    | 1466       | 1596     | 1686     |             |
| 1.3 non-departmental enterprises                    | 217     | 620     | 1331    | 1600       | 1850     | 2216     |             |
| 2. net product of public sector                     | 1422    | 2743    | 4471    | 5047       | 5691     | 6357     |             |
| 2.1 govt. administration                            | 735     | 1367    | 2193    | 2401       | 2698     | 2965     |             |
| 2.2 departmental enterprises                        | 522     | 890     | 1237    | 1361       | 1493     | 1560     |             |
| 2.3 non-departmental enterprises                    | 165     | 486     | 1041    | 1285       | 1500     | 1832     |             |
|                                                     |         |         |         | (per cent) |          |          |             |
| 3. share of public sector in gross domestic product | 10.9    | 13.4    | 14.2    | 14.8       | 15.7     | 16.2     |             |
| 3.1 govt. administration                            | 5.2     | 6.2     | 6.4     | 6.5        | 6.9      | 7.0      |             |
| 3.2 departmental enterprises                        | 4.2     | 4.4     | 3.9     | 4.0        | 4.1      | 4.0      |             |
| 3.3 non-departmental enterprises                    | 1.5     | 2.8     | 3.9     | 4.3        | 4.7      | 5.2      |             |
| 4. share of public sector in net domestic product   | 10.6    | 13.2    | 13.9    | 14.5       | 15.4     | 15.9     |             |
| 4.1 govt. administration                            | 5.5     | 6.6     | 6.8     | 6.9        | 7.3      | 7.4      |             |
| 4.2 departmental enterprises                        | 3.9     | 4.3     | 3.9     | 3.9        | 4.0      | 3.9      |             |
| 4.3 non-departmental enterprises                    | 1.2     | 2.3     | 3.2     | 3.7        | 4.1      | 4.6      |             |

\* provisional

**TABLE XII**  
**Net Domestic Product from Public Sector by Industry of Origin**  
(at current prices)

(Rs crores)

| industry                                             | 1960-61 | 1965-66 | 1969-70 | 1970-71** | 1971-72** | 1972-73** |
|------------------------------------------------------|---------|---------|---------|-----------|-----------|-----------|
| (1)                                                  | (2)     | (3)     | (4)     | (5)       | (6)       | (7)       |
| 1. agriculture                                       | 30      | 80      | 113     | 141       | 162       | 190       |
| 1.1 departmental enterprises                         | 30      | 78      | 108     | 136       | 157       | 183       |
| 1.2 non-departmental enterprises                     | ---     | 2       | 5       | 5         | 5         | 7         |
| 2. forestry @                                        | 48      | 77      | 102     | 107       | 124       | 121       |
| 3. mining and quarrying                              | 16      | 33      | 80      | 81        | 89        | 112       |
| 3.1 departmental enterprises                         | ---     | ---     | ---     | ---       | ---       | ---       |
| 3.2 non-departmental enterprises                     | 16      | 33      | 80      | 81        | 89        | 112       |
| sub-total: primary                                   | 94      | 190     | 295     | 329       | 375       | 423       |
| 4. manufacturing                                     | 82      | 236     | 437     | 516       | 560       | 700       |
| 4.1 departmental enterprises                         | 58      | 114     | 142     | 151       | 166       | 208       |
| 4.2 non-departmental enterprises'                    | 24      | 122     | 295     | 365       | 394       | 492       |
| 5. construction                                      | 43      | 80      | 126     | 133       | 158       | 178       |
| 5.1 administrative departments                       | 18      | 26      | 50      | 52        | 62        | 63        |
| 5.2 departmental enterprises                         | 24      | 49      | 72      | 75        | 85        | 101       |
| 5.3 non-departmental enterprises                     | 1       | 5       | 4       | 6         | 11        | 14        |
| 6. electricity, gas and water supply                 | 45      | 104     | 223     | 248       | 267       | 295       |
| 6.1 departmental enterprises                         | 10      | 13      | 34      | 36        | 22        | 19        |
| 6.2 non-departmental enterprises                     | 35      | 91      | 189     | 212       | 245       | 276       |
| sub-total: secondary                                 | 170     | 420     | 786     | 897       | 985       | 1173      |
| 7. transport, storage and communication              | 374     | 616     | 892     | 976       | 1068      | 1098      |
| 7.1 railways                                         | 251     | 399     | 502     | 535       | 590       | 579       |
| 7.2 communication                                    | 63      | 113     | 201     | 236       | 262       | 273       |
| 7.3 transport by other means & storage               | 60      | 104     | 189     | 205       | 216       | 246       |
| 7.3.1 administrative departments                     | 2       | 4       | 6       | 6         | 6         | 6         |
| 7.3.2 departmental enterprises                       | 36      | 42      | 69      | 76        | 77        | 66        |
| 7.3.3 non-departmental enterprises                   | 22      | 58      | 114     | 123       | 133       | 174       |
| 8. trade, hotel and restaurants @                    | 5       | 22      | 70      | 78        | 117       | 117       |
| sub-total: transport, communication and trade        | 379     | 638     | 962     | 1054      | 1185      | 1215      |
| 9. banking and insurance                             | 62      | 155     | 288     | 414       | 508       | 627       |
| 9.1 departmental enterprises                         | 2       | 5       | 7       | 9         | 10        | 10        |
| 9.2 non-departmental enterprises                     | 60      | 150     | 281     | 405       | 498       | 617       |
| 10. public administration & defence                  | 538     | 989     | 1503    | 1635      | 1832      | 1992      |
| 11. other services                                   | 179     | 351     | 637     | 718       | 806       | 927       |
| 11.1 administrative departments +                    | 177     | 348     | 634     | 708       | 798       | 904       |
| 11.2 departmental enterprises                        | ---     | ---     | ---     | ---       | ---       | ---       |
| 11.3 non-departmental enterprises ++                 | 2       | 3       | 3       | 10        | 8         | 23        |
| sub-total: finance & community and personal services | 779     | 1495    | 2428    | 2767      | 3146      | 3546      |
| 12. total public sector                              | 1422    | 2743    | 4471    | 5047      | 5691      | 6357      |
| 12.1 administrative departments                      | 735     | 1367    | 2193    | 2401      | 2698      | 2965      |
| 12.2 departmental enterprises                        | 522     | 890     | 1237    | 1361      | 1493      | 1560      |
| 12.3 non-departmental enterprises                    | 165     | 486     | 1041    | 1285      | 1500      | 1832      |

@ relates to non-departmental only

@@ relates to departmental only.

\*\* provisional

+ relates to education, medical, public health, water supply and sanitary services

++ relates to real estate, ownership of dwellings and welfare institutions

# Unsettled world economic scene

THE UNSETTLED conditions which characterized the world economic scene of the past year stimulated increased financial and consultative activities of the International Monetary Fund which are continuing into 1975.

Drawings on the Fund during the past year totalled the equivalent of 4,053 million special drawing rights (SDRs). This is the largest amount ever registered in a calendar year; the next highest level had been reached in 1968 with SDR 3,552 million. It represents a sharp turnabout from 1973 when total drawings of SDR 732.6 million were the lowest in ten years. Of the total 1974 drawings, SDR 2,337 million were under the Fund's regular facilities, and SDR 1,716 million under the oil facility which was established during the year to assist member countries in meeting the impact of higher oil import costs on their balances of payments.

The Fund's new Interim Committee on the International Monetary System, at its first working meeting in Washington on January 15 and 16, 1975, carried on its work of advising and reporting to the Board of Governors with respect to supervising the management and adaptation of the international monetary system, considering proposals to amend the Articles of Agreement, and dealing with sudden disturbances that might threaten the system. The Interim Committee succeeds the Committee of 20, which concluded its work in mid-June 1974 and was terminated at the Fund's 1974 Annual Meeting; it had held two meetings during the year and its Deputies four.

During the past year, 33 member countries used the oil facility, drawing amounts of currencies which totalled

the equivalent of 1,716 million special drawing rights (SDRs).

The largest purchases were made by Italy totalling SDR 675 million, India (SDR 200 million), Yugoslavia (SDR 139 million), Pakistan (SDR 97.94 million), Korea (SDR 90 million), New Zealand (SDR 85.68 million), Uruguay (SDR 46.58 million), Chile (SDR 41.47 million), and Bangladesh (SDR 40.39 million).

To finance drawings under the oil facility, the Fund entered into borrowing agreements with nine governments or monetary authorities. The lenders and the amounts up to which they have agreed to lend are, in SDR equivalents:

|                               |                 |
|-------------------------------|-----------------|
| Abu Dhabi                     | SDR 100,000,000 |
| Canada                        | 249,084,000     |
| Central Bank of Iran          | 580,000,000     |
| Central Bank of Kuwait        | 400,000,000     |
| Kingdom of the Netherlands    | 150,000,000     |
| Nigeria                       | 100,000,000     |
| Oman Currency Board           | 20,000,000      |
| Saudi Arabian Monetary Agency | 1,000,000,000   |
| Central Bank of Venezuela     | 450,000,000     |

The total amount of resources made available for financing purchases under the oil facility thus amounts to about SDR 3.05 billion. At the end of the year, about SDR 1.33 billion were still unused. In order to give member countries time to consider their balance of payments results for 1974, the Fund will be prepared to receive requests for purchases under the 1974 oil facility until February 28, 1975.

At its recent meeting in Washington the Fund's Interim Committee considered the conclusions of the Executive Directors concerning the role of the Fund in financing oil-related deficits for 1975. It is widely agreed that there will be an even greater need for recycling through official channels in 1975.

The establishment of an oil facility in the Fund was first

discussed at the meeting of the Fund's Committee of 20 on the reform of the international monetary system on January 17 and 18, 1974, in Rome based on a proposal by the Fund's Managing Director, Mr. Witteveen. The Committee asked the Executive Directors to explore urgently the idea of such a facility. After preliminary negotiations with potential lenders in the spring by the Fund's Management, and following intensive discussions in the Board of Executive Directors, a decision was taken on June 13 to establish a new oil facility. Interest on Fund borrowings to finance drawings under the oil facility was set at an annual rate of seven per cent, and corresponding rates are charged to members that draw under the facility. Repayment is to be completed not later than seven years after the purchase.

On August 22, the Fund announced the completion of borrowing agreements with the first seven lenders. This opened the way for purchases by members, and the first group of these were announced on September 6. The pace of purchases quickened towards the end of the year. In an appraisal of the achievements of the oil facility, Mr. Witteveen said that it had been a major factor, especially in the latter part of 1974, in helping many member countries to avoid restriction or unduly abrupt adjustment such as severely deflationary policies or competitive exchange rate action.

Under the Fund's regular facilities of the General Account, member countries purchased the equivalent of SDR 2,337.3 million in 1974 as against SDR 732.6 million in 1973. Besides numerous gold tranche drawings, large purchases by Italy contributed substantially to the overall increase.

Total repurchases amounted to the equivalent of SDR 606.2 million compared with SDR 614 million repaid in 1973. Net drawings outstanding at the end of the year

were equivalent to SDR 5,627.4 million compared with SDR 3,505 million at the end of 1973.

Six developing countries, faced with shortfalls in their export earnings, used the Fund's compensatory financing facility for drawings to the equivalent of SDR 107.15 million.

During 1974, the Fund approved stand-by arrangements for 15 member countries in a total amount equivalent to SDR 1,381.75 million, of which SDR 433.10 million was still available at the end of the year. Members and amounts (in million SDRs) of stand-bys approved during 1974 were as follows:

|             |               |
|-------------|---------------|
| Bangladesh  | 31.25         |
| Burma       | 31.5          |
| Chile       | 79.0          |
| Fiji        | 3.25          |
| Guyana      | 5.0           |
| Haiti       | 4.0           |
| Israel      | 32.5          |
| Italy       | 1,000.0       |
| Korea       | 20.0          |
| Liberia     | 4.0           |
| Pakistan    | 75.0          |
| Panama      | 9.0           |
| Philippines | 38.75         |
| Sri Lanka   | 24.5          |
| Sudan       | 24.0          |
|             | <hr/> 1,381.7 |

The expansion in the of the Fund's resources been met, in addition to rowing to finance draw under the oil facility, by existing holdings of currencies. Some of the currencies ded in Fund transaction 1974 were used for th time.

They are Bahrain Ecuadoran sucres, Indian rupiahs, Iranian rial Omani, Saudi Arabia and United Arab dirhams.

A further improvement in the Fund ty has been the a and extension of th Arrangements to F a five-year period c October 24, 1975. the Fund to reple sources by borro the equivalent of a.

5.5 billion in the currencies of ten of its industrialized members (the United States, Germany, the United Kingdom, France, Italy, Japan, Canada, the Netherlands, Belgium and Sweden). These arrangements entered into force in October 1962 and were modified at the occasion of the present renewal to bring their operational provisions up to date. They provide the Fund with a useful supplement to its resources which it can use when any of the ten participants makes a purchase from the Fund.

On June 13, 1974, the charges on the use of the Fund's resources were revised to range from 4 to 6 per cent per annum, and the basic rate of remuneration was set at 5 per cent, the same as the interest on the SDR.

A major addition to the Fund's policies to assist its members was the establishment of an Extended Facility in mid-September. Under this new medium-term facility, the Fund will give special assistance to members for longer per-

iods, and in amounts larger in relation to their Fund quotas, than has been the practice under existing tranche policies. The duration of a regular stand-by arrangement does not exceed 12 months and the repayment period for purchases made under it is for a maximum of five years; in contrast, under an extended arrangement the member country can count on Fund support for up to three years and will have a repayment period of up to eight years. In its formulation and administration, the Extended Facility is likely to be beneficial in particular for developing countries with serious payments imbalances and structural maladjustment.

A new method of valuation for the special drawing right was introduced on July 1, following a decision of the Executive Directors on June 13. At the same time, the rate of interest on the SDR was raised from 11/2 to 5 per cent per annum. The new

method of establishing rates of exchange for currencies against the SDR is the so-called "standard basket." The value of the SDR is set equal to the sum of a "basket" of sixteen currencies, with the share of each currency in the "basket" being broadly determined by its importance in international trade and payments. Using market exchange rates, the Fund each day calculates the value of the "basket" in terms of the U.S. dollar and determines rates against the SDR for other currencies involved in Fund operations and transactions.

There was no new allocation of SDRs at the start of 1974 and thus the total of SDRs in existence has remained at SDR 9.3 billion since the last allocation on January 1, 1972. No decision has been taken regarding further allocations of SDRs.

During 1974 total transfers of SDRs were 1,038 million compared with SDR 1,189 million in 1973 and SDR 1,494 million in 1972. Transactions

with designation, in which the Fund designates countries to provide foreign exchange to users of SDRs, totalled SDR 449 million, which was the largest annual total for this type of transaction since SDRs were first allocated at the start of 1970. The total of transfers for 1974 also included use of SDR 379 million in transactions by agreement among those European countries that maintain their currencies within narrow margins. Transfers from participants to the Fund's General Account totalled SDR 80 million in 1974.

During the year many countries took the initiative to obtain SDRs from the Fund's General Account against payment of currency in order to reconstitute their SDR holdings. The total amount obtained in this way was SDR 120 million. Over the year the General Account's holdings fell from SDR 508 million to SDR 457 million.

—IMF  
Memorandum, January 7, 1975

## The Old Order Changes

The "New Deal" envisaged for the tribals in Andhra Pradesh in the First Five-Year Plan stands fulfilled in the successive plans. Development schemes in tribal areas were launched during the First Plan with an outlay of Rs. 118.72 lakhs.

The establishment of four multi-purpose projects at Utnoor, Araku, Narsampet and Paderu in the State marked the beginning of an integrated approach to long-range planning centring on tribal development. During the Third Plan, twenty-four tribal development Blocks covering the tribal areas were constituted.

The tempo of development over the successive plan periods gathered momentum. The outlay earmarked for Tribal Welfare registered manifold increase — from a modest Rs. 118.72 lakhs to Rs. 734.03 lakhs in the Fourth Five Year Plan.

In addition, specialised institutions like the Girijan Cooperative Corporation Limited, and the Andhra Pradesh Scheduled Castes and Scheduled Tribes Cooperative Housing Agency were brought into being to give undivided attention to an aspect of our hydra-headed social problem.

To the changing times the tribals are slowly responding — an encouraging sign indeed. In the crucial days ahead, they will no doubt make a contribution to the mainstream of life.

The old order changes, yielding place to new.

THE DIRECTOR OF INFORMATION  
AND PUBLIC RELATIONS  
GOVT. OF ANDHRA PRADESH

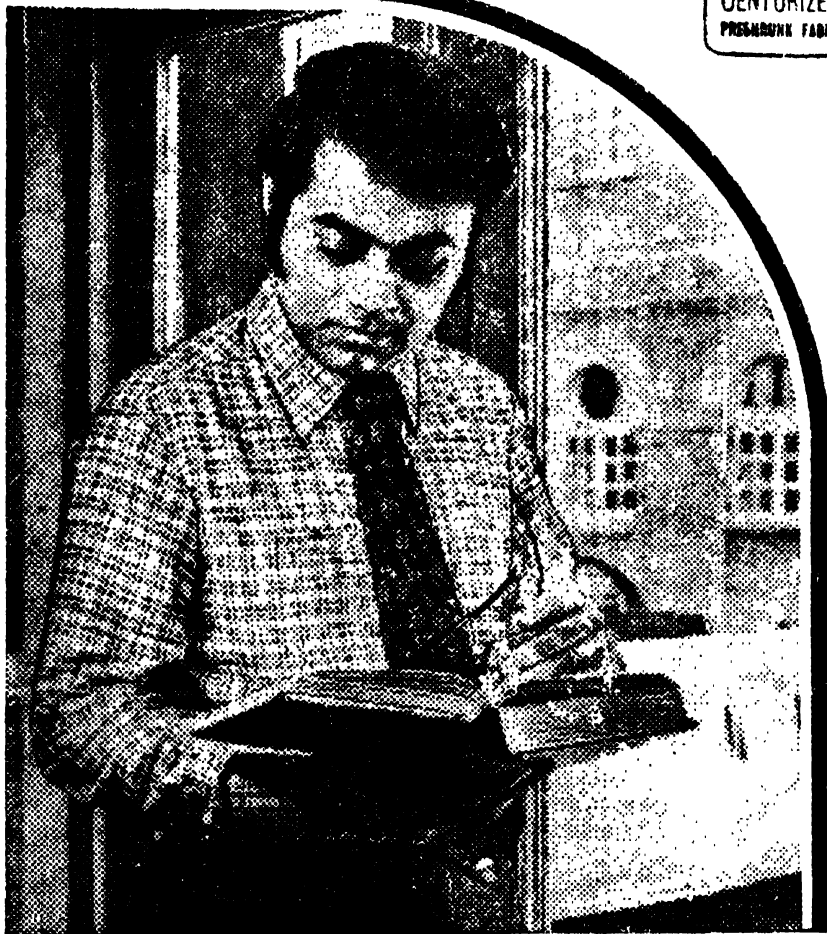
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**EASTERN ECONOMIST**

**JANUARY 24, 1975**

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**Wind Must Change**

**Pant and Power**

**World Economy in Crisis**

**East-West Economic Relations**

*With a feature on*

**Indo-Soviet Cooperation : 1955-75**

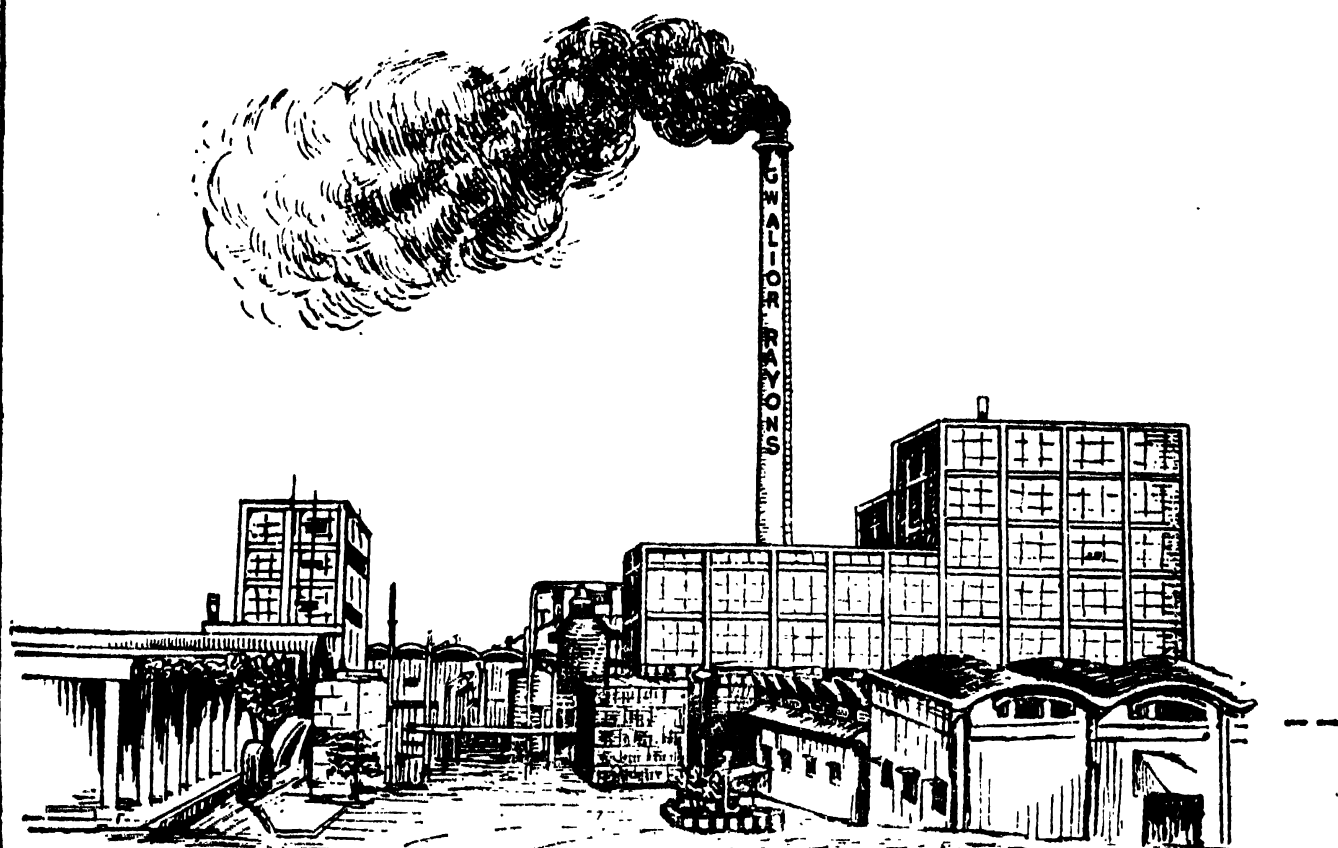
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# Wind must change

COULD IT BE that senior ministers in the central government have taken on this January 26 a Republic Day resolution to be obstinately optimistic? Mr T.A. Pai, addressing the second International Seminar of Economic Journalists in New Delhi, has informed us that there is no recession in our economy. He has said that industrial production keeps growing, that where outputs had dropped earlier, the concerned industries are picking up and that, as in the case of the textile industry, even where prices were slipping some time ago due to accumulation of stocks, manufacturers have since been able to push them up again. Mr Jagjivan Ram, that sedulous searcher after silver linings, desires that we should take heart because the *kharrif* procurement has not been going badly, while the *rabi* prospects have visibly brightened up. Professor D.P. Chattopadhyaya, wanting not to be left behind, has re-assured us that India's export trade would not suffer even if there is recession in the industrialized countries or other foreign economies.

Lending his confident music to this orchestration of hope and faith Mr K.C. Pant has promised that his ministry's policy planning for power as well as its vigorous pursuit of performance in the existing facilities and progress on projects in the offing should see the country out of its energy difficulties. Crowning it all has come Mr K.D. Malaviya's invitation to the nation to rejoice in the certainty that, Bombay High having begun to ooze oil, the country should be self-sufficient in this essential and strategic asset around 1985 at the rates of consumption and production coming happily together at a level of 30 million tonnes. We should not quarrel of course with these white knights, so bold and true, who are carrying all these horseloads of good news from Ghent to Aix, for this journal too is persuaded that, in comparison to 1974 or 1973, the new year has started rather well and should be able to do better as it goes along. Mrs Gandhi and her ghostly advisers, as distinct from her more visible ministerial colleagues, permitting.

Mr C. Subramaniam, who occupies the post of Finance minister, — an office which perhaps currently has even more problems than the prestige that necessarily goes with it — has been appropriately circumspect in doing any loud thinking since the central budget is only a few weeks away. As a matter of fact he told the seminar that this was the time for a Finance minister to do the listening rather than the talking. This is quite as reassuring as anything that he could possibly have said. It is clearly necessary and desirable that the Finance minister should keep an open mind and be receptive to suggestions that may come to him about the policies by which the forthcoming central budget could assist the economy in cashing on the favourable circumstances and trends seen in the early days of the new year to which so many of his colleagues have drawn the attention of the public. Granted that the food and agricultural base of the economy is improving as Mr Jagjivan Ram has claimed, that progress is being made with power generation and distribution as Mr Pant has hopefully suggested and that demand is running at a level firm enough and strong enough to engage all the productive capacity or potential in industry as Mr Pai has forcefully been arguing, it still remains for the government immediately through the central budget and also otherwise over the coming months to impart a positive direction to savings, investment and agricultural and industrial expansion.

Fortunately Mr Subramaniam seems to be as sensitive to this imperative as anybody would wish him to be and it is significant that, speaking at the international seminar of economic journalists in New Delhi, he has just assured the country that the budget proposals on which he is working will impart to the economy the direction which it could most profitably take. It should be generally possible to concede that no sharp departure from the current monetary or credit policy could be risked for some time to come. The government has been able to assert a certain measure of control over money supply by raising interest rates and regulating the availability of bank credit and while it is necessary that the banking system should minister more helpfully to the me-

## eastern ECONOMIST

JANUARY 31, 1975

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and small industrial units, there does not seem to be any scope presently for reflationary monetary or credit policies beyond adjustments of a marginal nature as the busy season ends.

By the same token it should be proper for fiscal policy to assume some responsibility for activating and mobilizing the productive resources of the community through higher levels of saving, investment or even selective consumption. Here, unfortunately, our public finances have been rigidly laid on a Procrustean bed. Taxation has been stretched painfully to cope with expanding government expenditure on administration and also on a number of unproductive outlays of a capital or revenue nature. At the same time the availability of resources for financing production and investment, whether in the public sector or the private, is being chopped off in order to suit the stringency of aggregate financial resources available for the government or the community. Unless the fiscal proposals of the forthcoming central budget could help the government and the country to get out of this impossible position, the Finance minister cannot really hope to give a constructive turn to the course of the national economy. For one thing the government, taking courage in both hands, should opt out of the present policy of linking dearness allowance to the cost of living and freeze dearness allowance at its existing levels throughout the central government, state governments, public sector undertakings and industrial and commercial establishments in the private sector. This should be the logical sequel to the anti-inflationary measures taken since July last year to moderate the pressures acting on the price level as well as the investible resources in the economy.

Simultaneously the central budget should be equally bold in surrendering notional tax revenues through selective reliefs in direct or indirect taxation which could promptly stimulate economic activity and thereby bring about a genuine improvement in the government's tax revenue. In the case of direct taxation it would be socially valuable and economically worthwhile to raise the income tax exemption limit to Rs 7,500 and moderate the incidence of taxation correspondingly on in-

comes up to Rs 25,000. It would also be wise and proper to make it more attractive, particularly for assesseees in the income range of Rs 25,000 to Rs 40,000 to save more and invest more by offering them a suitable scheme of more liberal tax rebates designed for the purpose.

As for indirect taxation, the simplest as well as the most straightforward course would be to look very closely indeed into those central excise duties which may be harshly restrictive of production or essential consumption. In any event there is no case at all for retaining any central excise duty at a level which is killing or is threatening to kill off established industries by draining their liquidity or otherwise squeezing their financial resources. It may be argued that any reduction or relief in taxation, however contrived, would only force the government to depend even more heavily or objectionably on deficit financing. The short answer could be that the galloping increase in taxation which has been continuously taking place has after all not been able to moderate the recourse to deficit financing. Could it not be that the time has come for the problem to be dealt with on a different basis or on different assumptions?

As we had indicated earlier, the drastic curtailment of unproductive public expenditure, both on revenue and capital accounts and the rigorous disciplining of other outlays according to a rational order of priorities seem to be the only means open to the government to gain some authority over its resources position. The mere raising of taxation, whether direct or indirect, again and again has already become counter-productive and the law of diminishing returns is bound to operate even more fiercely in the future if further increases in taxation or even the maintenance of some of the taxes at their existing high rates were to inhibit the production of particular industries or the general growth of economic activity — as indeed they would. Mr Pai may be right in saying that there is no recession yet in the economy. Inflation, however, is very much there and if the government does not act seriously enough to prevent stagnation or feeble economic business expansion becoming a loyal attendant of inflation, Mr Pai would be the first to realize that not merely a recession but an economic crisis of inadequate production and growing unemployment would emerge to falsify the pristine expectations of this new year.

## Pant and power

THE UNION minister for Energy, Mr K.C. Pant, has been drawing attention to the improvement in the power situation with the better management of existing thermal capacity and the installation of additional generating sets for over 1000 mw so far in 1974-75. However, the demand for power is growing at such a rapid rate that it will be difficult for the state electricity boards to step up generation to the desired extent, unless higher priority is accorded for implementation of power schemes and there is more effective co-ordination of the activities of the state electricity boards in different regions. Rajasthan, Madhya Pradesh and Kerala have surpluses to export though there are deficiencies in the inter-linking of grids of Rajasthan, Punjab and Haryana. The quantities of power generated in Madhya Pradesh and Kerala, are, of course, being fully utilised though even in the later state hydel power generation has been

adversely affected as in Maharashtra, Karnataka, Tamil Nadu and Orissa, by the failure of monsoons.

What precisely is the thinking of the government and the planners in regard to the execution of new and continuing schemes has not been spelt out in spite of the fact that the fifth Plan is running out its first year. It is true that in addition to the new capacity of 1700 mw, if not 2000 mw in 1974-75, as much as 3000 mw in 1975-76 will be created. Even the achievement of a target of 5000 mw in 1974-76, which by itself is commendable, cannot help the planners to reach the ambitious goal of over 35,000 mw by 1978-79. With the constraints on financial resources and the handicaps of the state governments, it will well-nigh be impossible to step up the tempo of construction of hydel and thermal projects for creating new capacity at an annual average of 4000 mw in 1976-79. The task, however, is not beyond the capability of the nation as

thermal generating sets will be available in the required volume and what is all needed is the organisation of work and assembly of men and material with the provision of the requisite resources.

There is no indication yet of any preparedness on the part of the Planning Commission to consider sympathetically the claims of state governments like Andhra Pradesh, Tamil Nadu, Karnataka, and Uttar Pradesh on the plea of lack of resources and insistence on the mobilisation of matching funds. The position in the southern region particularly is grave. For, against the signs of improvement in other regions, there has been a net deterioration in power availability with the disastrous failure of both the monsoons and the earlier slow progress in respect of execution of plan schemes. The Tamil Nadu government has again been obliged to double the power cut to 60 per cent recently and is now worried about preventing a further rise in the cut in summer months; Kerala is not in a position to supply the usual quota of 2 million units daily because the hydel storages are not satisfactory and its own needs cannot be fully met if there is no careful management of available water resources.

Karnataka has been badly hit in the last two seasons. The increase in the capacity of Belgaum Smelter by 20,000 tonnes is remaining largely unused while work on fresh expansion has had to be slowed down. The Mangalore fertiliser project may go on stream later in the year. Other industrial ventures also are implementing expansion schemes and only recently the state's Industries minister, Mr S.N. Krishna, emphasised the need for erecting a coal based or nuclear power station in the Hospet region for achieving balance in generating capacity and preventing a recurrence of the current happenings. Even if the Kalinadhi project can take shape quickly it can be hoped that there will be a distinct improvement in power availability only in the later years of the current plan period. But progress has been inexcusably slow and it will not be surprising if this mammoth project in all stages, accounting for a capacity of over 1200 mw, will be completed fully only by the middle of the next plan period.

The Chairman of the Andhra Pradesh

State Electricity Board has also bemoaned that the Srisailem, Nagarjuna Sagar and Lower Sileru projects having a capability of 840 mw are being constructed for nearly a decade now because of the severe shortage of financial resources. These schemes could have been completed in 5/6 years yielding valuable additional power by now and relieving the pressure on consumption of petroleum products or coal. The Kothagudem 4th stage expansion also has not been quickly taken up, while Vijayawada thermal station, with an initial capacity of 200 mw, may not get off the ground unless additional emergency assistance is provided. The schemes on hand will result in, an addition of 1500 mw by 1978-79, meaning an increase of 250 per cent over the capacity of 1973-74.

Andhra Pradesh may not be fully using the new capacity though the experience of the past clearly shows that the demand for additional energy will automatically be generated once the distribution arrangements are satisfactorily completed and a massive programme of energisation of pump-sets is undertaken. Andhra Pradesh is also in the happy position of supporting mammoth pit-head thermal stations at Ramagundam and Kothagudem because the desired quantities of coal and water

for cooling and steam generation are available in plenty.

With a big push to the execution of continuing schemes in AP, steady progress on Kalinadhi and expeditious commissioning of three generating sets in the first phase of the Iddiki project in Kerala, there is a prospect of nearly 200 mw of capacity being brought into being by 1978-79. In Tamil Nadu, the 5th unit of 110 mw in Ennore Station will be ready later this year. But there is no possibility of other schemes being completed including even the Kalpakkam Power Station before the early years of the sixth Plan as progress is slow and many new projects are only in the very early stages. Any improvement in power supply in Tamil Nadu can, therefore, be achieved only with the most effective use of Ennore's capability of 450 mw, after the fifth set is commissioned, and Neyveli's capacity of 600 mw. Some serious efforts are being made to raise the efficiency of working of Ennore with the remedying of defects in plant design, maintenance repairs and operational problems. In Neyveli too oil is being used in two boilers and lignite output is being raised to the extent possible with the available machinery. But the arrangements for modernisation of mines and stepping up

## Eastern Economist Annual Number 1975

This special issue, dealing with "inflation in the world economy," discusses in depth and detail the major economic developments and trends in recent years which have resulted in or contributed to the problems of economic stability, growth or development which the countries of the world face today. The economic situation in different parts of the world is described and analyzed and profiles are presented of a large number of national situations. India's own economic circumstances and prospects are viewed in the larger world perspective as well as in terms of its own specific problems and requirements. The annual number is illustrated with analytical and descriptive charts and statistical tables. Priced at Rs 15 per copy this special publication is on sale with leading booksellers and it can also be had directly from:

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raisings are not proceeding at the needed in an emergency situation. It will not be a surprise if between Ennore and Neyveli additional 200 mw of capacity is activated.

The needs of the southern region can therefore be met only by a pooling of the resources of the state electricity boards and integrated operation of thermal and hydel capacity. As there is a high degree of cooperation in the operations of hydel and thermal stations and the transmission of available power, the surplus energy of thermal stations during nights is being "banked" in Karnataka and released during peak hours. But the union ministry of Energy and the Planning Commission have to take helpful decisions if economic growth in the southern region is not to be stifled. The Planning Commission particularly has been laterly insisting that the state governments should mobilise additional resources if they are desirous of increasing plan outlays. It has been made brutally clear that central assistance for 1975-76 will be pegged at the level of 1974-75. This approach is understandable when the emphasis is on avoidance of deficit financing. But it will be only accentuating inflationary pressures and making nonsense of fresh investment in new industrial projects, if the power situation remains critical. The centre has to find ways and means for allocating additionally Rs 150 crores annually for power schemes of the southern states. If need be, there may be special safeguards about the amortisation of these debts. It may also be insisted that there should be restructuring of electricity charges for improving viability of the state electricity boards.

In the ultimate analysis the required resources have to be secured by augmenting the revenues of the state electricity board. It has, of course, been legitimately complained that the cost of thermal generation has been needlessly inflated by unilateral action in regard to the refixation of prices of coal, delays in the implementation of modernisation of the Neyveli lignite mines and low operating efficiency of the Ennore thermal station. The necessary allowance can be made for these deficiencies when fixing revised tariffs. But there is no escape from costlier power and the average

cost can be kept down only with the implementation of pit-head power stations in AP and quicker exploitation of the hydel potential of Karnataka and Kerala. It may even be advisable to dispense with work on industrial projects in the state sectors for some time and divert available resources fully for power projects for a

few years. The centre too can take over the implementation of some new projects on its own and relieve the financial bottlenecks. Without a dynamic approach to the problems on the power front and the helpful attitude, the southern region cannot hope to make any significant headway in the coming years.

## Towards easier money?

CERTAIN RECENT developments in the money market in the 1974-75 busy season clearly suggest that some new trends are emerging in the banking system which would make it definitely easier for lenders to meet the requirements of their constituents without any sizeable assistance from the central banking institution. At this time last year it looked as if there would be an unrelieved squeeze for funds and the scheduled commercial banks might not find it easy in the foreseeable future to relax credit controls and provide the required resources for all productive purposes. The galloping rise in prices domestically and imported inflation resulted in the creation of unexpected pressures and it was not possible then to visualise that the adjustment to the new situation would be completed soon and the Reserve Bank would not be compelled to resort to inflationary financing even with the administration of rigorous credit controls.

These fears have happily not turned out to be correct, and with a decline in prices for several commodities in world markets and even a drop in wholesale prices in recent months within the country, the demand for funds from industry and trade has slowed down and there is no disposition now on the part of industrial units to build up inventories in the same manner as they did until recently. Curiously enough the sharp decline in prices for non-ferrous metals and other imported items in the latter half of 1974 is resulting in the replacement of high-priced inventories with low-priced fresh purchases enabling a better use of available credit limits.

It may be too soon to say that inflationary pressures have been contained and there may not be a repetition of the hap-

penings of 1973-74. But the latest reports suggest that the rabi harvest may be really helpful in bringing down food prices and with an improvement in the power situation in some parts of the country, industrial production also may tend to improve in several directions, easing shortages and making it less profitable to indulge in black-marketing. If these expectations turn out to be correct it can be safely reckoned that banks will again be in a comfortable position in the latter half of the year and the strain on available resources, if any, will be due only to an expansion of credit for procurement purposes in May-July. In the prevailing circumstances, bank finance for procurement purposes on a large-scale will certainly be reflected in a smaller demand for assistance from other directions as the artificial character of rises in prices for many commodities, due to shortage and speculation, may get corrected to a great extent.

The expansion of credit in the current busy season so far has been on a much smaller scale than in the same period in the 1973-74 busy season. In fact, the recent improvement in growth of deposits and slower rise in advances have enabled the lending institutions to reduce their reliance on the bill market scheme or re-finance facilities provided by the Reserve Bank. The poor demand for procurement credit has of course been partly responsible for the reduced pressure on the banking system. The outstanding amount of procurement credit on January 10, 1975 was only Rs 215.50 crores against Rs 367.53 crores. However, even allowing for the expansion of food credit in the last busy season which was of the order of Rs 189 crores, the growth in non-food credit has been on a much smaller scale so far in 1974-75. This is borne out by a study of the data available in the weekly statements of the sche-

duled commercial banks. Advances of these banks between October 26, 1974 and January 10, 1975 have risen by only Rs 331.95 crores against as much as Rs 581.53 crores in the corresponding period in 1973-74.

It must be remembered that the surge in advances in October-January 1974 was on top of a contra-seasonal rise in the closing months of the 1973 slack season. The increase in advances between September 28, 1974 and January 11, 1974 was thus as much as Rs 770.09 crores against only Rs 373.65 crores between September 27, 1974 and January 10, 1975.

Thanks to a vigorous growth in deposits latterly the credit institutions have not been obliged to borrow heavily from the Reserve Bank even with the completion of the borrowing programme of the central government for 1974-75 by floating new loans in November and December which called for fresh investment of Rs 260 crores. The lowering of the cash reserve ratio by one per cent to 4 per cent in two stages in December has of course been helpful in preventing a larger diversion of fresh deposits though the statutory obligations called for sizeable investment of fresh deposits concurrently, to some extent.

It was not anticipated that there would

be a significant pickup in the growth rate of deposits as the experience of 1974 was not quite encouraging. There may be some exaggeration in fresh additions to deposits due to year-end adjustments. But the same exercises were carried out also early in 1974. It should therefore be said that there has been a revival in growth in deposits, the additions since the beginning of the busy season to January 10, 1975 being Rs 440.75 crores against Rs 401.08 crores in the corresponding period in 1973-74. With slower expansion of credit, borrowing against refinance facilities has been only Rs 38.22 crores against Rs 154.01 crores. The outstanding amount under the bill market scheme also has risen only modestly by Rs 58.26 crores against Rs 95.25 crores. The aggregate assistance provided by the Reserve Bank was thus only Rs 96.48 crores against Rs 249.26 crores. The use of refinance facilities in the previous busy season was exceptional to some extent due to an increase in the cash reserve ratio. But the net increase would still have been sizeable because of the unsatisfied demand for funds of all constituents.

It will be interesting at this stage to examine how the current busy season will behave until the end of April and to what extent banks will be obliged to seek the assistance of the Reserve Bank for meeting

their commitments. Even allowing for the brisk marketing of a larger cotton crop and the prospect of a higher level of sugar production, it seems unlikely that the increase in non-food credit in the whole season will be more than Rs 650 crores against Rs 848 crores in 1973-74. As it is also probable that the growth in deposits will be much higher at Rs 750 crores against Rs 682 crores the level of borrowing under the bill market scheme and against refinance facilities at the end of April may not show any appreciable increase as compared to the level at the end of October 1974.

It will not therefore be wrong to say that the forthcoming slack season may witness a return to more comfortable conditions in the money market even with the impounding of a fairly large amount in buffer stocks. As the Reserve Bank has been adopting latterly a more helpful attitude and the managements of industrial units have been inculcated with a sense of discipline in the use of funds, it will be advisable to liberalise credit controls wherever a relaxation will be useful in boosting industrial and agricultural production. The lending institutions should also be prepared to reduce interest rates on advances which are at present exorbitant in many directions.

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# FROM THE CAPITAL'S CORRIDORS

R. C. Ummat

## IMF's Oil Facility • Bombay High Potential • Power Outlook

A good deal of satisfaction is being expressed in the official circles here over the agreement reached a few days ago at the Washington meeting of the 20-Nation Interim Committee of the International Monetary Fund to extend the system of oil facility—introduced last year—for the current year and to charge a concessional rate of interest on the amounts available under this facility to the developing countries which are most affected by the near-quadrupling of the prices of crude oil during the last 30 months.

For the time being, the amount of the oil facility for this year—1975—has been fixed at five billion Special Drawing Rights (SDRs)—equivalent to six billion US dollars. Our quota in this will be 670 million SDRs (\$800 million). Being one of the countries worst affected by the global oil crisis, this year we will be provided assistance under this facility at a concessional rate of interest—about 2.5 per cent, as against the normal seven per cent which we were required to pay last year. No relaxation, however, has been effected in the period of repayment of the assistance received under the facility; the repayment period remains five to seven years.

### special fund

To enable the worst affected countries to secure assistance under the oil facility at concessional rate, the Washington meeting decided to constitute a special fund which has to be subscribed by the oil producing and the developed countries on fifty-fifty basis.

The quantum of the oil facility is envisaged to be reviewed in June when the 20-Nation Interim Committee meets again at Paris to finalise the programme. The estimates of requirements at the Washington meeting varied from six to twelve billion SDRs.

The union minister for Finance,

Mr C. Subramaniam, who attended the Washington meeting, revealed to newsmen here last week that there was some difference of opinion at the meeting on the extension of oil facility for the current year. The United States of America favoured the establishment of a Trust Fund of \$25 billion for the benefit of the developing countries, instead of continuing the oil facility. It, however, soon fell in line and did not pursue the trust fund idea in view of the general consensus.

### unutilised facility

Last year, we utilised about 200 million SDRs out of our quota of 400 million SDRs under the oil facility. A further request has been made for 150 million SDRs recently. This request has not yet been acceded to by the IMF; it is still under consideration by it. The Washington meeting decided that the unutilised quantum of the last year's oil facility should be added to this year's facility. This carry-over. Mr Subramaniam estimated, was of the order of about a billion SDRs. The countries which could not utilise their last year's allotments fully, of course, would not be automatically entitled this year to the unutilised allotments of last year, as this year's allotments are to be determined taking into consideration the reserves position of the countries concerned.

Another important decision taken by the 20-Nation Interim Committee, Mr Subramaniam stated, related to the IMF quotas of the member countries. It had been agreed that the total of the IMF quotas for all members should be raised by 10 billion SDRs to 39 billion SDRs. The share of the members of the Organisation of Petroleum Exporting Countries has been increased from five to ten per cent. A corresponding reduction has been effected in the quotas of the developed countries which will now be

67 per cent of the total. The share of the developing countries has been maintained at 23 per cent. Our share remains unaffected at 3.2 billion SDRs. Mr Subramaniam disclosed that the developing countries wanted the IMF quotas to be increased by 50 per cent, but the developed countries wanted the increase to be restricted to only 30 per cent. A compromise was struck at 32.5 per cent. It was, of course, agreed that the IMF quotas in future should be reviewed every three years, instead of every five years as has been the case hitherto. The IMF statute is envisaged to be amended accordingly.

One of the most controversial issues discussed at the Washington meeting, Mr. Subramaniam stated, was the role of gold in the international monetary system. It was agreed that gold as a reserve for currencies should be gradually phased out. There was, however, a good deal of difference of opinion on whether the central banks of the members of the IMF should be allowed to sell or purchase gold at the current market rates. France favoured such transactions, but India expressed the view that since gold standard was to be given up ultimately, there was no point in central banks purchasing gold in the open market.

### excessive liquidity

The developing countries in general felt that since nearly 80 per cent of the world monetary gold—the gold kept by central banks as reserve against currencies—was held by eight developed countries, the revaluation of this gold at the current market prices would raise their reserves by \$100 to 120 billion. This would give them excessive liquidity which would only accentuate global inflationary pressures. The gold question is proposed to be considered further in June when the final decision is envisaged to be taken as a package of the amendments to the IMF statute.

On floating of currencies—another matter which came up for discussion at the Washington meeting—Mr Subramaniam stated that the general view was that

floatations should be done under the surveillance of IMF. The USA, however, favoured more freedom to the countries concerned. Any request for floatation, it wanted, should be accepted by the IMF as a matter of course.

About the recycling of the huge surplus funds available with the oil exporting countries Mr Subramaniam observed that while the developed countries like the USA wanted this recycling to be done through them, the developing countries desired an institutional framework for it. An interesting idea canvassed in this connection was to make available credits to the middle group of countries at intermediate rates of interest (between 8.5 per cent charged by the World Bank and 0.75 per cent by the IDA). The intermediate rate could be three to four per cent. The repayment period for such loans could be 40 years.

In his discussions with the World Bank President, Mr Subramaniam revealed that he had put up proposals for aid for several agricultural, hydro-electric and super power stations. This aid had been sought in addition to the normal assistance available under the aegis of the Aid-India Consortium.

Another important revelation made by Mr Subramaniam was that he had assured the union ministry of Petroleum and Chemicals that both the rupee and foreign exchange resources required for the oil exploration and production programme would be provided fully.

Mr Subramaniam indicated that the USA was likely to provide 300,000 to 500,000 tonnes of foodgrains under the new PL-480 programme by June and an equivalent quantity after June. This PL-480 programme was quite different from the old one. The purchases were to be made at commercial prices, but on deferred payment basis. The interest on deferred payments was concessional—two per cent for some years and 2.5/3 per cent thereafter. The payment could be spread over a period of 40 years, with 10 years of grace period.

A very important disclosure was made by the union minister for Petroleum and Chemicals, Mr K. D. Malaviya, in an informal talk with me last week concerning the potential of the Bombay High structure where oil was struck a few days ago in the third well in succession. The Chairman of the Oil and Natural Gas Commission stated a few days ago that the latest strike had raised the potential of this oilfield to 10 million tonnes of crude per annum.

Three more exploratory wells are envisaged to be drilled in the area before

the onset of the monsoon season. Although all efforts are being made to accomplish this task within the stipulated period, the third well, however, may have to be taken up after the monsoon season if it starts early.

The important disclosure made by Mr Malaviya is that if oil is struck in the sixth well—which is to be drilled just outside the periphery of the Bombay High structure—the estimate of the potential of the oilfield will be doubled immediately. This well will enlarge the dimensions of the field by 100 per cent.

The concerted measures initiated by the ministry of Energy about a year ago to improve power availability in the country have started yielding wholesome results. The minister for Energy, Mr K. C. Pant, told newsmen here last week that the performance of the existing thermal power stations registered a marked improvement during the three months to December last, with the result that generation from these units during the nine months of December recorded an overall increase of five per cent over the level during the corresponding period of 1973. Taking into account the new power stations added in these nine months, the power supply between April and December (30,813 million units) was higher by 10 per cent, compared to the corresponding period in the previous year. The addition to the generation capacity during the current financial year upto December-end had been of the order of 1,000 MW, as against 486 MW during the whole of 1973-74. The total addition to capacity during the current financial year is expected to go up to 1,800 MW, as against the target of 2,000 MW.

If the recent improvement in thermal generation continues, as was hoped by Mr Pant, the power supply position in the country should ease considerably next year as not only another 3,000 MW capacity is expected to be added between April, 1975, and March, 1976, but also the recent heavy snowfall should increase hydel generation very significantly.

The overall capacity utilisation of thermal power stations during the nine months to December was 51 per cent. There is a considerable scope for further improvement in utilisation of capacity as 85 per cent is considered to be the optimum utilisation. In December, the utilisation was nearly 58 per cent, as against less than 50 per cent on an average during the six months to September.

System-wise, the utilisation of capacity between April and December worked out to 65 per cent in Gujarat, 63 per cent in Delhi, 62 per cent in Uttar Pradesh and

61 per cent in Andhra Pradesh. In Bihar, West Bengal and the DVC area, however it still left much to be desired at 43, 47 and 44 per cent, respectively. The Bihar and West Bengal systems, together with the Maharashtra system, incidentally have shown the least improvement (only 1, 6 and 3 per cent, respectively) over the performance during the nine months to December, 1973.

Apart from the significant improvement in maintenance of power stations, the most important factor responsible for a steady increase in generation has been the increased output of coal. The movement of coal to power stations has also been well kept up.

The overall production of coal during the current financial year is expected to touch 88 million tonnes, as against the target of 90 million tonnes. Compared to 1973-74, this year's output will be nearly 10 million tonnes more. Next year, the output is expected to go up by another 10 million tonnes.

### marked improvement

The increased output of coking coal, incidentally, has helped in increasing coal stocks at the steel plants to 1.87 lakh tonnes on January 21—equivalent to six day's consumption. At the beginning of this month, the stocks with the steel plants were 1.7 lakh tonnes—equivalent to five days' consumption. In December, they did not exceed 1.55 lakh tonnes. The output of coking coal registered a marked improvement during the special production fortnight organised by the Bharat Coking Coal Limited (BCCL) starting from December 30. The daily rate of production during this period increased from 58,000 tonnes to 90,000 tonnes. The total output during this fortnight was 1.13 million tonnes, as against the target of 850,000 tonnes and actual production of 670,000 tonnes in the previous fortnight. Although it is not expected that this tempo of production can be kept up during the coming weeks, yet it has been noted with satisfaction that the mines of BCCL have a capacity to yield a much higher output than had been the case upto December.

A national conference is proposed to be held sometime during summer to draw up a programme of action for optimising energy sources and substitution of oil by coal and other fuels. By that time, it is hoped, the work of processing the report of the Fuel Policy Committee would have been completed. The programme of action is to be drawn up in the light of the recommendations of this committee and the other technical and economic studies underway in the Energy ministry

# President on the world economic crisis

THE FORUM of Financial Writers has aptly chosen "The World Economy in Crisis" as the theme of this seminar. During the third quarter of this century, the world has seen unprecedented progress, comprising in these about 25 years an order of economic growth which is unparalleled in human history. And yet, around the close of this quarter century, more specifically over the last 18 months or so, the world has also been engulfed by numerous problems. There is even danger that the present international economic system which has been the sheet anchor of the orderly development of the post-Second War world economy, may collapse. We may revert to a chaotic situation in the matter of international trade and exchanges unless corrective steps are taken to ensure the proper functioning of the international economic system. It is, therefore, most timely that international financial experts from both developed and underdeveloped countries, from countries with a persistent balance of payment surplus as well as with chronic balance of payment problems, from countries on the threshold of development and from those struggling to break out of the vicious circle of poverty, low savings and low investment and consequent low income, have gathered here today to discuss the problems of the world economy in this crucial period of human history.

### nature of the problem

I would not presume to go into the details of the problems that are proposed to be discussed during the coming few days in this meeting of experts. I would, however, like to share some personal thoughts with you in regard to the nature of the world problem today, so that the experts gathered here from diverse countries could deliberate on the issues posed for this seminar in the perspective of the social and political considerations that I feel are paramount in any solution of these vital problems.

The major problem of the world for the next 25 years as I see it is that of bringing about a better balance in the living stan-

The Second International Seminar of Economic Journalists was held in the capital from January 22 to January 28, under the auspices of the Forum of Financial Writers, New Delhi. We are reproducing here the address of the President, Mr Fakhruddin Ali Ahmed, who inaugurated the seminar and speeches made by some of the participants. Speeches of some more who participated in the seminar will be published in subsequent issues.

dards and rates of growth of different peoples inhabiting this planet. As I stated earlier, the world has seen unprecedented growth over the last 25 years, an order of growth which perhaps the world has not seen in a couple of centuries preceding this quarter century, or even perhaps over a thousand years preceding the last couple of centuries. Nonetheless, this growth has occurred only in certain parts of the world, and has left behind vast sections of the human race living in conditions prevailing in the middle ages or even worse. This inevitably gives rise to tensions and to problems of international exchanges which are deep-seated, and for which all thinking men have to find an adequate solution. In the race for growth, we cannot afford to forget or to neglect the conditions of life and the prospects of growth for large sections of the world population. Large disparities lead to tensions and create manifold problems within a country. With improved communications, the same is likely to hold true for the comity of nations. When the race for growth turns into a free for all, and when there is attempt to safeguard one's own position at the expense and to the exclusion of all others, in short, when each tends to follow "bigger thy neighbour"

policies, there arise basic problems which could lead to the end of the present international order and the existing international system of exchanges.

I have a particular reason for emphasising this point. I find from the themes of deliberation chosen by you such vital subjects as resources for development; the oil crisis and the developing countries, production and supply from developing countries; cooperation between producers and consumers of oil; opportunities for exports; and international cooperation and aid. In short, the subjects chosen for discussion cover almost all the important problems that face the world today, and these problems arise mainly because of the divergent points of view and approaches of different countries understandably concerned with their own individual problems.

### unprecedented inflation

The basic problem that faces the world today, in my view, is one of orderly growth of all nations. The nineteen sixties were declared by the United Nations as the first Development Decade, and a fair amount of growth was achieved by many developing countries during those ten years, though in retrospect one finds that the rate of growth achieved by developing countries has still been less than the rate of growth achieved by the developed countries generally. The Second Development Decade, however, has not seen even this modest rate of growth in so far as the developing countries are concerned. Indeed the year which has just ended has seen unprecedented inflation in all countries of the world, with an attempt by many countries including some developed ones to pass on the burdens of this inflation to others, with the result that this burden has fallen on those who are least capable of bearing it. There has also been a cooling off of the spirit of cooperation and international assistance which had characterised the previous decade.

I consider this to be an unhappy development. Just as no man can live and thrive by himself, no country can prosper

## POINTS OF VIEW

today in isolation or in complete disregard of the well-being of its neighbours and of its trading partners around the world.

This is a perspective which I feel we should keep in mind while discussing some of the present problems of the world. I have heard in many forums that the crisis in the world today arises solely because of the policies adopted by the oil producing countries. The sudden and sharp increase in oil prices has undoubtedly created certain problems, for which there is need for appropriate solutions. But we seem to forget that oil is a wasting resource; that for decade, the price of oil had no relationship to the real cost of this primary source of energy in terms of the cost of its alternatives; and that the trade and aid policies of the developed coun-

tries have also been onerous for many developing countries, the more so because of the long history of such policies.

In more recent times, I find that the forces of inflation are becoming infectious, and that many countries facing internal problems are seeking to pass on the burden of their own inflation to other helpless countries. This to my mind is a short-sighted policy which contributes to the sense of international insecurity, and which could lead to a return to the distressing conditions of the inter-war years. On a different plane, in the context of the problems of the international monetary system, the attempt to put back gold as the central deity around which the international economic system is to revolve, as is recommended by some authorities, seems

to me a surrender to primitive thinking, and if accepted, could presage the end of the international economic order built up assiduously after the second World War.

I am sure all the experts gathered here will deliberate on those problems, keeping in mind the needs of peaceful growth of the world, of the economic use of the world's resources, and of equitable distribution of the fruits of human endeavour. I am sure your deliberations would be of great value not only to us but to all governments around the world so that the last quarter of the present century can see a resumption of the growth recorded in the previous quarter which has been interrupted lately, with better distribution of this growth so that it reaches the less privileged of the human race.

# Where do we go from here?

E. P.W. da Costa

THE DECADE that ended with the global energy crisis of October 1973 was, in many respects, a rewarding experience for countries of the Third World. For one thing, it contained a great part of the United Nations First Development Decade when the problems of underdevelopment were approached for the first time with what might be described as a sense of global responsibility. The fact that its apparently ambitious target growth of real GNP of five per cent on the average was achieved is not, it is true, the reflection of this global responsibility but some of the instruments of success, notably the Green Revolution, demonstrated more than ever the power of know-how transfer on a world-wide scale. The decade also contained the impressive unity of "the group of 77" which, for the first time, seemed to subdue the differences of the Third World when facing the affluent and industrialised countries with their capacities to dictate prices almost in every country of the world.

Undoubtedly this unity did improve what might be described as peripheral areas of collective bargaining both in UNCTAD and GATT and the tone, if not the substance, of some United Nations resolutions in every specialised agency. The industrial countries did, indeed, yield further ground and aid to the Third World was often added more generously than more liberal trade. It looked as though, as time went by, the doctrine of Countervailing Power would somehow get

established between two sectors of the trading system which, for three centuries, have lived in confrontation. But the stately movement of the instruments of UNCTAD and GATT — consolation prizes offered to those without basic economic or money power or military might based on advanced technology — has not been permitted to run a fruitful course.

The manner in which that trade negotiating system was replaced by the pattern of 1974 need not be again described: but two essential elements in the 1974 Revolution can be mentioned. Firstly, and in a sense triumphantly for the Third World, the doctrine of Countervailing Power suddenly went to work. Without military power, OPEC countries of the Third World as suppliers dictated terms as absolutely as any group of nations has ever been able to do in all the world's history. The suddenness, the completeness, the extraordinary simplicity of the operation is, in retrospect breathtaking. But secondly, and far less happily, in its moment of spectacular success, the Third World has been struck a grievous blow. For the group of 77, which had forged impressive unity in an attempt to secure social and economic justice at once fell apart. There fell out of the Third World a Fourth World whose growth and payments problems have become incapable of resolution unless the new strongholds of affluence and impregnable money power heed the injustices the new order has in-

flicted on the weakest sections of the poor developing world.

Our long addresses in the last decade to the First and Second Worlds have thus suddenly become irrelevant. The major debate now is between the Third and the Fourth Worlds; have all the bridges of unity built into the group of 77 dissolved because their interests are now seen so wide apart? This is a central question for the future. And it is not only a matter of the one billion dollars of which India is currently short or the ten billion dollars which the new Fourth World needs so desperately. The turn in Fortune's wheel always changes the character of fair-weather friends. But has the basic unity of purpose of the old Third World succumbed again to Realpolitik which means simply that nation states must operate foreign and economic policy in their "interests"; meaning, in fact, that national policy is to be settled by higgling and haggling to determine what price tags shall be set on each Act of State. Thomas Fuller once said, obviously with great error, that he who dwells in the market-place shall not need teachers. The western world's setback is precisely because it saw so much of policy as in the market-place; in the end it did not see the massive power not so displayed. Equally could it not be that the Fourth World's frustration and despair could be a major hurdle which the new Third World needs to surmount?

In its essential elements, both the power of the new Third World and the misery of

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the Fourth World reflect the age-old structure of inequality between nations and between peoples. The average per capita income of top OPEC countries is near US \$10,000; in the developing countries afflicted, it is below \$200. In India we still linger at a figure below \$1.00 per head. In other words, between the topmost scales in the new rich OPEC countries and India, there is a ratio of 100 to 1. There is, it is true, India's total official gold stock which will have to be sold every year to pay the oil bill. The price of gold, which in the last fifteen months has competed well with oil, may create in some millions of Indian households an illusion of external well-being. Let us not forget, however, that 1975 is Women's Year: so far as Indian gold is concerned, I am in a position to announce this year will last forever.

There was just two years ago an acute North/South problem in the world. We were adjusting our sights to the resolution of that problem when it changed its location, but not its form. For us in Asia, it is an East-Middle East problem. For us in India, Pakistan and Bangladesh it is a South Asia-Middle Asia problem. But geography makes no difference. It is a problem of the basic inequality of nations with high-priced property and nations without what the economists still call value in exchange. With \$100 per capita income what value in exchange have we in India to buy oil of \$1.5 billion every year?

### excessive penalty

It is true we could have done much to avert our grim helplessness today. In particular, if the Bombay High drilling operations had been undertaken a decade ago when they were first mooted we could perhaps have escaped our current impoverishment and could conceivably have been self-sufficient in oil as we now hope to be in the late eighties. However, the penalty our destitute poor are paying for the error of our decision-makers is excessive. Errors are endemic in human nature. The new Third World, which once made its errors with us, has not been penalised. This is, literally, an Act of Providence, not only one of brilliant timing and skill of oil producers. Because it is an Act of Providence, its beneficiaries must carry the obligations of Divine compassion. We in India, because Providence has now given us the success called 'Bombay High', may be better able to receive or withstand the judgement on our mistakes or other failings: but other countries are less fortunate. How, except with the compassion of those whose generously can mean de-

liverance, do they get their second chance?

Compassion is not charity: it is an essential ingredient in the sharing of human dignity or, more cynically, our common heritage in human bondage. Very few compassionate approaches can be viable in the economic sense: but, equally, it is not possible to describe many viable enterprises with an appropriate social justice content. We are thus back at the theme of our first International Seminar—'Economic Growth and Social Justice'. Both Wealth and Welfare are conditions of any integrated pattern of development in this, the last quarter of the twentieth century. Curiously, although this century is predominantly the Century of Welfare, there exists now a paradoxical love-hate relationship between Growth and Welfare. In the International Community the resistance to welfare expenditures in developing countries has recently grown and new line of division is in danger of arising. Countries like our own, which have not, for one reason or another, been able to develop an effective growth machine are also condemned to cut off some essential welfare. But when calamity strikes, as it does every year — in Biafra, the Sahel, Ethiopia, Bangladesh or when rains fail over all our drought-prone areas — bare survival surpasses all other ends. We do recognise the imperative need of population control and we must be ruthless in its propagation; even with moderate population growth, adequate social justice is just not possible with real growth of less than six per cent per year. In India at

least we will have to invent new tools, particularly in agriculture, to bring this about. But may we not also say that when the international community's actions reduce our rate of growth by about two to three per cent per year, the community of mankind morally inherits that degree of responsibility for the suffering inflicted wantonly in each nation state on its lowest income brackets?

We are all naturally agape at the OPEC countries' annual surplus of over \$60 billion. I hesitate to talk in the same breath of a mere billion dollars: but it is small sums like these which represent the difference between hope and despair. There is some magic, curiously repetitive, in the figure of one billion dollars. This represents, fairly accurately, the rate at which India's balance of trade will run in 1974-75 and probably subsequent years, unless Providence has quite unexpected favours to bestow. It also represents the annual aid which India receives via the Aid-India Consortium or otherwise. Thus, neatly, all our aid is exactly siphoned off to overcome an adverse balance of trade, the result, primarily, of the rise in price of imported oil, though food and fertilisers are now also riding high. To restore the *status quo ante* as of September 1973, we will now need another billion dollars. But that is not enough for India's poor. Inflation has doubled the cost of relief of the severely destitute as I calculate now the need to abolish severe destitution by doles or otherwise is — you must have guessed already — one billion

## Eastern Economist 30 Years Ago

FEB. 2, 1945

The acute coal situation seems to have at long last roused the government to some realization of their responsibility. The Mines Welfare Advisory Committee, set up under the Coal Mines Labour Welfare Fund Ordinance, recently recommended the undertaking of certain welfare measures. The Committee unanimously recommended that provision be made for an Anti-Malaria Scheme for 1945-46, with a recurring expenditure of Rs 7 lakhs and a non-recurring expenditure of Rs 3 lakhs. It was felt that responsibility for such measures in the outlying areas would be beyond the financial resources of the Fund and the Provincial governments should be asked to assist in the task in their respective areas. The committee also approved the pro-

vision for the construction of two regional hospitals in the Jharia coal-fields at an estimated capital cost of Rs 3 lakhs and two hospitals for the Raniganj coal-fields at an estimated cost of Rs 1,54,000. Part grant of Rs 3 lakhs each towards the capital cost of Central hospitals in Jharia and Raniganj was approved. Provision was also made for propaganda measures and for growing vegetables. Token grants for a water-supply scheme costing Rs 5 lakhs and a housing scheme costing Rs 10 lakhs were also made. This represents a welcome step forward. But the scrutiny of these items of welfare work seems to show that the committee lays all the emphasis on cure. Prevention measures have rather suffered a neglect.

dollars. There are no vulgar fractions, one billion dollars is the value of our adverse trade balance, the external price of a return to normalcy in real growth, the price in rupees of the abolition of severe destitution. We borrow a billion dollars: we remit abroad a billion dollars. In an operation so neatly balan-

ced in external payments, there is no residue left to touch the substance of the tragedy that lies within. And with current inflationary pressures, we dare not create the currency which can overcome destitution. Nor, with lower capital formation, can real growth be advanced to finance the welfare bill. Where do we go from here?

We hope this seminar will help us with directional guides by which we may restore to ourselves the self-reliance that we have now lost seemingly everywhere. Obviously this can only be in partnership with our friends: I had almost said that with them it might even be better to travel hopefully than to arrive.

# Oil prices in perspective : an Iranian view

**Ahmed Kouross**

Deputy Minister, Economy, Government of Iran

LET US go back to the last decade—the period from 1960 to 1970. For the majority of the industrialised countries it was a memorable time. It seemed as if in their own domain the industrial countries had found basic solutions to problems of cyclical crises, unemployment, poverty and stagnation.

During this period most of the industrial countries attained sustained growth under conditions of manageable inflation. The growth rate for them was about 4.8 per cent per year in real terms, while the rate of inflation was 3.4 per cent per annum.

By and large, the situation in the industrial world was stable although imbalances existed. In this decade some countries resorted to devaluation of their currencies in partial default of their international obligations while other countries continued to pile up immense surpluses in their external payments. It was under such conditions that the terms of trade continued to deteriorate against the developing countries who were predominantly primary commodity exporting economies.

## inexpensive resources

Let me elaborate further on this point. The industrial countries managed to assemble inexpensive resources in the form of cheap energy and other raw materials as well as cheap imported labour in their own backyard in order to produce finished commodities for export at highest possible price. The question was no longer one of maintaining full employment but rather attaining heightening growth rates with no regard to inflationary forces which lurked behind their expansionist policies.

The process led to over-consumption, social tensions and permissiveness. To face the situation many governments in

industrial countries introduced welfare programmes beyond the limits which their own national resources, under fair terms of international trade, could afford.

As the present decade unfolded, the economies of the industrial nations were characterised by inappropriately high rates of growth combined with high rates of inflation. According to a very recent report by the International Monetary Fund, the combined rate of growth of 14 industrial countries in 1972 was six per cent in real terms and in the first half of 1973 was over eight per cent.

## exporting inflation

I stress at the risk of repeating myself that these countries achieved such rates of growth in real terms at a time when they were running inflation rates of about 14 per cent in 1974, seven per cent in 1973 and five per cent in 1972, which meant that they were shifting the burden of their inflation to the developing countries through an increase in their export unit values. According to the same report, the average annual rate of the export unit values of the industrial countries rose from 1.6 per cent during the decade of 1960-70 to 10 per cent in 1973 and accelerating to 27 per cent in 1974.

In this context, my Minister, H.E. Mr. Hushang Ansary, has already explained very aptly in his speech at the IBRD-IMF 1974 annual meeting in Washington the factors which contributed to form the high rate of inflation in the industrial countries. He said:

“First, the loss of confidence within the international community since August 1971 in the stability of the world monetary system; second, the introduction of floating exchange rates which helped resolve some of the capital flow problems but made it difficult

for the developing nations to estimate the ultimate cost of their development projects; third, the unusually high rate of economic growth in the industrial countries in 1972 and 1973 which strained the economies of these countries and brought considerable pressure on the world's natural resources; fourth, unfavourable climatic conditions which adversely affected the world food and feedstock supply, and heavy speculation and unusually high stockpiling of commodities by some countries which aggravated the situation; and fifth, manipulations by major international firms, which seriously affected the prices as well as the supplies of industrial raw materials and manufactured products.”

Thus, the industrial countries experienced a formidable rate of growth of income but with a high rate of inflation. In its wake, the flow of their official assistance had dwindled. The real income of each citizen of the industrial countries had increased by almost 50 per cent in 1973 over and above 1963 level. During the same period the real value of official development assistance from DAC member countries decreased by about seven per cent, according to the 1974 development assistance committee report

## price adjustment

It was against this background that the oil producing countries, the owners of one of the most noble commodities whose price is to be set, not by its cost of production but in terms of the cost of its alternatives and the real value of its derivatives, adjusted the price of oil in 1973 in order to compensate for the disruptive forces of international inflation and adverse terms of trade.

Much has been said about the impact of the increase in the price of oil on



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inflation and the balance of payments. Let figures speak for themselves. According to a published report by the OECD, the contribution of the change in the price of oil to the rates of inflation of industrial countries was no more than 1.5 per cent in 1974 against an overall rate of inflation of about 14 per cent as reflected in their consumer price index. I surmise that the relative weight for all other countries has been much less.

Let me now turn to the balance of payments difficulties. It is estimated that the change in the deficit on current account of the balance of payments of the developing countries between 1973 and 1975 will be \$ 21 billion of which \$ 6.8 billion constitute the oil component. The Imperial Government of Iran's bilateral and multilateral commitments to the developing countries, thus far, approximate the said estimate. As for the developed countries whose extra oil import bill from 1973 to 1975 approaches \$49 billion much has been done, including recycling and the revaluation of gold. I shall revert to these issues later on in the context of the international monetary system. But I find it appropriate to discuss with you the Imperial Government of Iran's initiatives and actions on channelling resources to the developing countries.

### international fund

As far back as in February 1974, His Imperial Majesty the Shahanshah of Iran proposed the establishment of new, neutral international fund, based, for the first time in the history of international aid, on important new features. The fund, to be established with equal contributions by the OPEC members and industrial countries, is to have a board of governors initially consisting of 12 of the OPEC members, 12 from the industrial countries and 12 from among the recipients. The representatives of the recipients will have equal voice in deciding how the fund's resources are to be used. Of the fund's initial outlay of US \$ 3,000 million Iran has already pledged a contribution of US \$ 150 million a part of which was in last September advanced to the UN Emergency Fund. I am happy to report that recently in their meeting in New York the finance ministers of the Group of 24 have expressed their full support of this fund.

In the very short period, Iran's commitment thus far has amounted to \$ 9000 million in the form of bilateral as well as multilateral assistance. This amounts to over 10 per cent of our GNP for the three years remaining period of our Fifth

Development Plan. Of this amount almost \$ 5000 million has been committed to the developing countries. Iran's assistance to the developing countries has come in many forms. Where a developing country has experienced balance of payments difficulties for payments on oil imports the Iranian assistance has come in the form of deferred payments on oil purchases. But looking further, Iran has also offered loans on concessionary terms to enable the developing countries set up vital industries, especially plants for chemical fertilizers which lead directly to an increase in food production. In other ways, Iran has gone into joint ventures financing foreign exchange cost of projects in the friendly countries, utilising their excess productive capacities and developing their natural resources.

### the basic philosophy

The foreign assistance programme of Iran has benefited the industrial countries as well. In some cases Iran has placed cash deposits in the central bank of a developed country while in other cases it has made advanced payments on future imports and also lending to public corporations of such countries. The philosophy behind Iran's assistance to the developed countries is to enable them see through the period of adjustment during which they have the opportunity to reform their economies to adjust to the new world order.

Now I wish to move on to the domain of the international monetary system. It was not too long ago that the efficacy of a monetary system, which prevailed over the horizon of international economic relations for three decades, was questioned in the setting of disillusionment and disarray. The asymmetrical fibre of the Bretton Woods system was, in fact, supplanted by those who previously considered it profanity to even cast doubt on the sanctity of the defunct system. As soon as the fixed exchange rate system ceased to function properly for the industrial countries, it was considered inappropriate.

The suspension of dollar convertibility in August 1971, the partial establishment of the central rate system in place of the par value system in December 1971, the forced realignment of February and March 1973 and the formation of the snake in the tunnel in 1973 were all symptoms of disturbances which originated in the economies of the industrial countries. From early 1973 when generalized float-ing began and a new exchange rate system

among the industrial countries became more suitable—to December 16, 1974, major currencies oscillated unevenly against the dollar. Obviously, what was experienced in the industrial countries rendered the prevailing exchange rate system even more precarious. The desire to float exchange rates was a lineal descendant of their ambitious employment and output aims which was incongruous with their external positions. Ultimately, the economies which were jeopardized were those of the developing ones that had endeavoured to reconstruct anew their economies.

Now, the tide has subsided. The gold has been, to a large extent, demonetized and a unit of the Special Drawing Rights is divorced of gold. Different currencies are to be close to their equilibrium rates and international economic life can continue its previous sustainable course. But, it has to be emphasized that the new price of gold should not contribute to expansion of the present level of international liquidity. Should the new price of gold expand liquidity in international markets, the continuation of the present inflationary trend must not escape our notice.

### restoring normalcy

Thus, the industrial countries must bring their inflation to tolerable rate, and relax their mercantilist barriers for all countries so that normalcy could be restored in the exchange market. In sum, what precipitated the present global crisis were the unmanageable growth rates in the industrial countries accompanied with inflation, unpredictable exchange rate fluctuations and unwarranted liquidity expansion. What we need today is a dialogue in the world and I am certain it will be provided by this forum, the Second International Seminar of Economic Journalists.

I would like to turn to the distinguished journalists who had the tolerance to bear with me throughout this discourse. I have deep faith in their devotion to fair reporting and responsible journalism. Obviously, divergent views inevitably arise when reporting progresses to interpretation. This is the essence of intellectual life. What I would like to stress in conclusion of my remarks is that the role the media have to play in combining reporting with news analysis is of vital importance to a meeting of minds between the traditionally industrial and the developing nations and indeed among all of us. After all, we have a valid case to present.



# How real is the energy crisis?

K. D. Malaviya

Is THERE really an energy crisis? I personally feel negatively. I think that we are more a victim of fear complex than anything else in calling the present crisis an energy crisis. But unfortunately we have been led to believe like this for sometime. It has been conveyed to us by the most eminent economists and oil experts both from the governmental side as well as by the international economists in oil. An alarming picture was being given to us in the last two or three decades with regard to the total reserves that would be available for the peoples of the world for their survival. I must admit that at a point of time several years ago I was a victim of this belief, which was dinned into our ears by most economists of certain countries and also experts of certain international monopolists and international companies, that there was an imminent danger of a crisis in the near future. It was in that background that the people have been led to believe that the present crisis is the oil crisis. I think we may in this conference like to review this aspect.

## lack of purchasing power

Even for a country like India, it is not an oil crisis because next door we have oil available, but we cannot purchase that oil. Therefore, in its totality, it is not the oil crisis but the crisis of balance of payment. If we had the money to purchase, I would not call this difficulty a crisis. All over the world, I personally feel, it is a question of balance of payment and this balance of payment is likely to stay in our society if the present system continues.

A crisis had to come either on account of domestic feuds or oil or national confrontations whatever you may like to call it; a crisis was imminent before us for some time. I think this crisis is leading us to a situation where there will be an inevitability of a breakdown of the present economic system, which has involved almost the whole of the world including the socialist world although they are the least sufferers of the oil crisis that confronts us all.

But the economic system that has involved us all cannot stay as it is because of the continuous development of a situation which was deliberately or without any deliberation emerging. I refer to a global disparity amongst us, where some countries were enabled to live and survive at the cost of others.

It is not only the price of oil but it is the economic price or a reasonable price of several commodities, which you call the basic commodities, on which stands the present prosperity of the world. There was an imbalance in the raw material and the finished products and it had been coming to us almost since World War II started or even before that. Slowly, a disparity between the prices of raw materials and finished products was growing. In between came the technology which was perhaps being conceived in a very major way without the concept of social justice.

The international aspect of social justice was being ignored. If iron ore was exported from a country which imported finished goods involving high technology the different between the prices was out of proportion to the skilled labour involved in finishing the products. I refer in this context the price of oil. The fertilizer made out of downstream industrial complexes could fetch far more price than the cost of production warranted.

## growing disparity

What I am trying to make out is that there was disparity in the economic price of the raw material and that of the finished goods. Crude oil was no exception to it.

I may, therefore, suggest that we might consider in this forum whether time has come or not for us to raise our voice, to bring sanity in the thinking and action which is not the fault of any individual country but it is the system that must be modified.

Let us come to my own country which

will illustrate the situation as I see it. Upto the year 1961 or 1962, our crude oil import bill was round about 100 crore rupees. Now it is about 13 times. Since 1972 it has certainly shot up to more than 10 times or 11 times. Obviously we will find it very difficult to keep our balance of payment within our control. Then starts the exercise of raising the prices of other commodities which we could export and which could bring us more foreign exchange. This adds fuel to the fire of inflation with worldwide repercussions.

## equitable distribution

Then we come to the question of surplus being created in the oil-rich countries and its disposal. As far as I remember, an international seminar was held in Iraq some time back and the Petroleum minister of Iraq did say that Iraq believed in avoiding monetary surpluses which involved dangers equal to the dangers posed by meagre financial resources. He was frank enough to say that no country should corner the surpluses: they have to be distributed in a manner which ultimately satisfies the inspirations of the peace-loving people. He has said that the policy of Iraq is to distribute the surplus in such a manner that the backward countries which have so far lacked these amenities get it.

I also feel that if, in order to draw that surplus from the oil-producing countries, we dump articles of luxury in that country or we undertake an industry in that country which does not fit into that pattern just now, it becomes a doubtful proposition. These resources should never be cornered for the selfish use of a group of people. Also resources should be utilised in useful schemes. The inevitable conclusion is that those who have been suffering so long should be given an opportunity to improve their lot.

We have just got out of a war in south-east Asia, thanks to the wisdom of those who are trying to bring a situation of normalcy. Whether normalcy will be

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restored there or not, I do not know because, the other day, again there was the threat of bombing. I do not want to go into that controversy, but what I am trying to make out is that, if we try to suppress a situation in a manner that does harm or is not understandable to the people who have suffered so far, we are not likely to gain from that suppression. There are certain tendencies which have also to be noted. For instance, Japanese were the worst sufferers among the highly developed nations. They depended almost cent per cent on their imports of oil. The European countries also massively depended on the import of petroleum products from the African and Arabian countries. The import bill of the USA is the highest because their consumption per capita is very high. The consumption pattern has become so erratic in most affluent states that it is necessary for them to think in terms of normalcy.

### energy conservation

Then comes the question of conservation. It is for these and other advanced nations to think how far the principles of conservation have to be applied rigorously in order to put down consumption of energy in their countries, whether it is gas or oil or coal. It is not because the reserves are dangerously depleting. The reserves are becoming more and more. There are more reserves known to us now than what was ever known. The crisis is really of making ourselves able to pay for what we need for our survival. If countries like India are forced to bring down their consumption to a most unimaginable level, tensions will grow; disharmony will grow;

and no government, no sane group of people, will be able to control the situation.

The rise in prices is not irrelevantly conceived of: in my opinion, there is a philosophy behind it; there is an orderly way of thinking behind it. May be, it does not suit most of the countries which have so far benefited by it. We are also suffering from it, and our suffering, because of the rise in prices, is more intense than the suffering elsewhere. Most of our difficulties in this country, social, political and economic, are on account of the basic fact that we have to pay through our nose for certain commodities, mostly fuel. I would, therefore, plead that re-thinking should be done not only by the countries who are suffering from it but also by the countries who are prosperous and affluent and who have to find a solution which is acceptable to all the three segments of our population on the globe—one, that is affluent, the second, those who are not affluent but are getting affluent out of all proportions because of the oil that they possess, and the third, the developing countries which have so far not got oil.

### Indian effort

Coming back to our own situation, India has its own national organisation to search for oil and to develop oil for the use of society. We started our activities in a very moderate way with the help of Soviet experts and by and by we have built up an organisation of our own. This organisation has produced more oil in seven to eight years' time than what the foreign oil companies have been producing. You know, how costly oil-search is. We

are investing money on long-term projects. As a result of our hard and patient efforts, we have been able to have a happy discovery in off-shore areas.

### attempt at self-sufficiency

India might increase its on-shore oil production from the present seven million tonnes—both private and public sector—to almost double this quantity in the next five or six years' time. On-shore we could, perhaps, produce six to seven million tonnes more than what we are producing today if we get the required equipment. The same quantity of oil could be made available to us in the next six years' time from off-shore also so that it is quite possible that we may get about 30 million tonnes of oil by the end of this decade or the beginning of the next—in 1981 or 1982. Surely we feel that we can become self-sufficient if the consumption at that time does not exceed 30 million tonnes of oil. So, it is a very happy situation which faces us so far as energy is concerned. But these six years are going to be difficult years.

We must have fertilizers for our farms. Now fertilizer has become too costly. It is beyond our reach. It is beyond the reach of those countries which have no food to feed their people. It means the demand for fertilizer will go down and its production also will be reduced.

It is high time that sanity returned to the countries of the world and they made an effort at arriving at a consensus which would be acceptable to us all with a view to avoiding real confrontation, which would be catastrophic for the entire world.

# Planning for energy

K. C. Pant

ONE OF THE features which distinguishes the developing countries from the developed countries is the wide difference in the per capita consumption of energy. Whereas the developed countries consume large quantities of energy per capita, the developing countries have a very low per capita energy availability. This is despite the fact that the economic development which has taken place in the developing countries has resulted in the per capita energy consumption increasing at a rate which has been generally higher than the corresponding rate of growth in the developed countries. The commercial ener-

gy consumption in the developing countries has increased even faster than the rate of total energy consumption, because of the substitution of non-commercial forms of energy by commercial forms. In the future, if economic growth at a satisfactory rate is to be attained in the developing countries, the growth of energy consumption must continue to increase rapidly, and commercial forms of energy must gradually become the main form of energy use.

When we refer to an oil crisis, we are really talking about the very sharp increase in the cost of imported oil during

the last year or so. It is this increase which has in various ways affected the developed as well as the developing countries and has been the cause of some amount of criticism by the developed countries. However, viewed in the historical perspective, it is apparent that the oil-exporting nations have lost heavily in the past due to a deliberate underpricing of oil. This policy of underpricing oil as a source of energy also led to its use growing at a very rapid rate. Not all the consumption of oil was strictly essential. The known reserves of oil in the world being limited, the virtually unchecked growth in its consumption was

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quite contrary to the need for conservation and optimisation in the use of different forms of energy. It is well known that, in many countries, the development of other forms of energy was virtually neglected because of the availability of cheap oil from foreign sources. Considered in this light, the so-called oil crisis has really served to further the interests of conservation and has also given a fillip to appropriate attention being paid to the development of alternative sources of energy.

In the short term, however, this sharp increase in the cost of energy provided by oil has serious implications for the oil-importing developing countries. A balance of payments constraint has developed and in some cases this casts a serious limitation of the ability of such countries to even maintain their existing level of oil consumption. Many of the developed countries have reacted to this price increase by raising the prices of manufactured and capital goods which are also imported by some of the developing countries, and this has further created difficulties for them. The fact of the matter is that, whereas the developed countries have considerable scope for reducing their consumption of oil, such a cushion does not exist in the oil-importing developing countries. Nevertheless, in India, an attempt has been made to curtail the use of some petroleum pro-

ducts by a sharp increase in the price. Thus, consumption of petrol has fallen by 25 per cent. We are also attempting to substitute other forms of energy in place of oil. Since coal is available in a fair degree of abundance, it makes good sense to think of replacing oil, wherever it is technologically and economically feasible, by coal. However, such opportunities do not exist in all the developing countries. In addition, there would be certain uses for which substitution would not be possible and, therefore, a minimum demand for oil would always exist. The energy planning in the developing countries would have to take note of this and consider how best to meet this requirement.

Some of the energy requirements can, in the future, be met by exploring and developing the non-traditional forms of energy. In the developing countries, particularly in the tropical latitudes, solar energy can be very usefully utilised for irrigation pumping which, in the years to come, would be a major consumer of energy. Solar energy and wind power can meet the energy needs in hilly and remote areas where it would be very costly to provide electrical power. In certain parts of the world, there would be possibility of developing geo-thermal energy. These are subjects which still require considerable research and development, if commercially viable solutions

to the technical problems being faced are to be found.

An accelerated programme for the exploration of oil deposits is another alternative open to some of the developing countries, though here again all the developing countries are not placed in an equally favourable position. The problem, however, is that oil exploration is extremely capital intensive, and has a high risk element. Careful thought has, therefore, to be given on the extent of investments to be made in this area of activity, in countries where capital is scarce and has a high opportunity cost.

In fact, one of the major problems which is likely to face the developing countries in the future is the highly capital intensive nature of all energy production. The establishment of power stations, development of coal mines, building the necessary transportation infrastructure, exploration for oil and its subsequent production and refining, all call for very heavy initial capital investment. Therefore, if the developing countries are to continue to meet the growing energy needs in the future, a very serious limitation may arise in their ability to finance the necessary investments required for this purpose. Even in those developing countries, where the natural resources exist for producing energy, the limitation of capital may still considerably handicap the efforts to meet their growing needs.

# Problems of resources and social justice

Dr. K.B. Lall

WHEN THE first United Nations Conference on Trade and Development met in Geneva it had been estimated that if 2/3rd of the world population is to achieve minimum rate of economic growth at 5 per cent per annum, the developing countries must be enabled to import by 1970 approximately 20 billion dollars worth of essential inputs, in addition to what they would be able to buy for their day-to-day needs with their traditional export income. In making this computation it had been assumed that the terms of trade for their export products would not deteriorate.

The UNCTAD viewed a modest build-up of the import capacity of developing nations as essential to their economic progress and as vital to global growth.

To this end three principal policy directives had been agreed upon:

First to secure at least some modest improvement of trade for commodities exported by developing countries.

Second to promote processing and manufacturing industry in developing countries and to provide access for their processed and manufactured goods to the markets of advanced nations, and

Third to facilitate transfer of financial resources to developing countries on concessionary terms.

Looking at the progress of the developmental process at the beginning of 1973, we could have noticed some improvement in foreign exchange receipts of some developing countries through the export of

their manufactured goods. You must also have noticed some improvement in the transfer of financial resources too, although in relative terms there had, in fact, been a decline. The terms of trade for some developing countries had also improved marginally. But the deterioration in the case of some other countries was sufficient to wipe out their gains from financial transfers. For developing countries as a whole the build-up in import capacity fell far short of the target of 20 billion dollars.

The upheaval in import costs which gathered momentum since has brought about a dramatic alteration in the premises on which the target was based and in the prospects of different developing countries for acquiring the import capacity so

vital to their growth needs. The price of wheat has trebled. So has the cost of fertilizers. The price of petroleum has quadrupled. There has been a hundred per cent escalation in the cost of capital goods, of technical know-how and of some chemicals. If you view the prospects from the angle of developing countries which do not export petroleum, while you may notice a significant but perhaps a temporary boom in prices of such items as rubber, phosphates and non-ferrous metals you will find that the increase in the export prices for tea, iron ore, manganese ore, jute, cotton and simpler manufactures have been either insignificant or very low indeed.

## unusual characteristics

This extraordinary upheaval in import costs of items indispensable for development of developing countries has been marked by some, very unusual, distinguishing characteristics; first, the upheaval was largely unforeseen; second, its intensity was concentrated in a period of 12 months; third, in some cases, it was very abrupt; fourth, it covered a wide spectrum of commodities and products essential to growth. The range of movement, however, was not broad enough, and the price behaviour was too uneven and erratic to provide compensating export incomes to a majority of developing countries.

The cumulative impact of these unusual characteristics has caused sudden, violent, and widely divergent shifts in the economic circumstances and prospects of different nations, both developed and developing and in their respective export gains and import burdens. If we wish to persevere with our global objectives of growth and social justice, national production structures, commercial and financial flows and some current concepts of international economic policy will need to be adapted to the change in economic environment. In our search for the required adaptations, let us first measure the impact of this crisis — this sea-change in environment — on the import capacity of the developing world.

It is a matter for gratification that the impact on the import capacity of the 13 developing petroleum exporting countries has been altogether fortunate and happy. In fact, we now have, within the developing world, "financial oases", which overflow with life-giving waters of petromoney. Their "resource gaps" have been converted into "resource reservoirs". These countries have now the capacity to buy all they need to fulfil their aspirations of rapid progress and growth. They have

also acquired a new capacity to impart growth impulses, not only to the rest of the developing world, but also to some parts of the developed world. We must all rejoice that this is so.

Eight other developing countries have been able to achieve a significant improvement in their terms of trade, sufficient to win from their export earnings the resources of a modest rate of growth in their economies. A few more have made marginal gains, which could enable them to bring about a balanced adjustment between their import expenditures and their export earnings. It, however, remains to be seen whether the gain in the import capacity of these countries will endure.

In the case of the remaining developing countries, accounting for over a billion people, the deterioration in import capacity has been so sharp, so steep, and so calamitous that they face the grim prospect of a negative rate of growth. Not only developmental, but also maintenance imports, are beyond their reach. Should the International Community fail to undo the damage to their import capacity and should the effort currently under way to maintain it unimpaired at the low level obtaining prior to the upheaval in costs and prices not succeed, we should bid goodbye to all notions of global growth. For we will have brought into being, on our planet, a vast populous depressed area capable of transmitting to the centres of power and affluence, both new and old, only negative impulses of depression, discontent and disorder.

## ironic situation

There is yet another irony in this ironic situation. Of the developing countries which have been hit hard by the upheaval in prices, such low income countries as India which have been struggling, not too unsuccessfully, to develop their inherent capacity to grow and even to transmit growth impulses to other developing countries, have been hit even harder.

The sudden erosion in the purchasing power of our export income has accentuated our difficulties in sustaining the capabilities we have built up and threatens to smother our endeavour to optimise our potential. In addition, the erratic changes that have occurred in the *inter se* relationship between the prices at which different goods are internationally traded imposes on us a very expensive task of adjustment to the emerging environment.

No nation or no group of nations can in my view be legitimately accused of bringing about this deplorable state of

affairs, consciously and deliberately. I say so because in this interdependent world there is none that can hope to thrive on the misery of other nations or could even remain unscathed from its consequences. On the contrary, the nations which have recently derived monetary benefit from price escalation and also the nations which have for years made multiple gains from the current economic system also face a new set of difficult problems.

Let us first direct our gaze towards those who are generally regarded as having come into wealth suddenly. Are they not asking themselves the question, what does this wealth consist of? What is the real value to them of the IOUs which are flowing into their coffers? How their monetary gains can be protected from gradual erosion? How can their wealth be deployed so wisely as to provide for its owners sources of enduring income which are not as finite as petroleum? Should they fail to find satisfactory answers to those questions in cooperation with other members of the international community, would not those whose fingers are at the levers of power, economic and political, succeed in rendering the gains of petroleum exporting countries temporary or nugatory?

Unilateral action by OPEC alone will not rid its member states of their problems. They may have difficulty in protecting their recent gains without the political support of the developing world. They may find it easier to deploy their newly gained riches to their enduring advantage if they succeed in enlisting the enthusiastic cooperation of those nations which have complementary resources in men and materials and if they manage to secure satisfactory terms from the industrial nations for the supply of development goods, technological skills and managerial expertise.

## present condition

Let us look a little more closely into the present condition of the advanced nations who have for many long years held a virtual monopoly of financial, industrial, scientific and political power. Not a day passes in Brussels when I do not hear depressing tales of woe or read about soaring prices, tumbling stock-values, rising unemployment, and falling production. Their statesmen, their administrators, their economists, and above all their financial writers are raising basic issues and are asking of one another pertinent questions about themselves, about the future of their nations. As for instance, and I quote "Is our prosperity, our pro-

gress, our power founded on quick-sands? Is it at all possible to find within our geographic confines substitutes for all the commodities on which our affluence depends? If not, should we not secure guarantees for free access to these unsubstitutable commodities? How can we secure guarantees without conceding something of like value to the developing countries?"

Yet another set of questions relates to prices. I quote again "Can we afford to pay the high price now expected for the energy which fuels our productive structure, which heats our homes, and which drives our motor-cars? Will the prices of other primary products that we need also rise? If so, how shall we foot the bill for the commodities we import and consume." According to current text books, this should not be difficult, provided the value and volume of the exports can be raised correspondingly. But the proviso chalks up yet another series of question marks. The import needs of petroleum exporting countries for traditional exports from industrial countries may not be too large. Their emerging needs for more sophisticated equipment may outstrip the capacity of industrial nations to meet them. At the same time, exports to MSAC's (most seriously affected countries) will decline *pari passu* with the decline in their import capacity. Some of the industrial nations may feel obliged by the size of their payment deficits to impose significant cuts even on their mutual trade. In short, if these unfavourable factors combine to cause export incomes to stagnate and imports to decline, the level of economic activity may begin to recede, even in the centres of great industrial progress.

## accentuated fears

The threat which a minority of thinking persons in industrial nations see to the very survival of the west accentuates the fears which petroleum producers entertain in regard to the permanence or reality of their gains. In this context, the view is advanced in some quarters that if the new and old owners of money enter into a constructive dialogue, all will be well with both groups of nations. It is argued that if new funds are deposited in well known banks, if these are used for the creation of some industrial complexes in new areas, and if the frontiers of the Affluent Society are extended to include a few more nations, the old order could still survive, with minor modifications and limited extensions of its technological benefits.

The scarcities of technological skills,

the inflation in the price charged by those who possess them, the physical and psychological limitations of the work force, and the paucity of human and material resources are much too well known to be ignored. Their cumulative impact will spell the doom of a limited approach and ensure the failure of a limited enterprise.

The crisis in development is of truly global dimensions. All of us -- without exception -- suffer from the current crisis, in one way or another because we have denied far too long the fundamental unity of mankind and the essential diversity of their situation. If I may quote from Gandhiji's prophetic words, he said: "The earth has enough for everybody's needs, but not for everybody's greed". If great national leaders feel able to give up their petty wrangling and allow themselves to be led by their nobler instincts, the dawn may yet break, in the coming months of 1975. I believe my expectations that the first year of the last quarter of twentieth century will witness the beginnings of a new bold enterprise are not altogether ill-founded.

## community's interest

In the famous "Fresco" of Community Action, conceived by Mr. Claude Cheysson (Commissioner for Development, Economic Community), the European Commission has set out the main guideline, in the following words. I quote: "To each according to his needs, by all our means". And, in this very city, the capital seat of a country where nearly 60% of the most seriously affected population lives, the Hon'ble Henry Kissinger, Secretary of the State of the United States of America, confessed to the Indian Council of World Affairs, on October 28, 1974, that "no action can impose its narrow interests without tearing the fabric of international cooperation." He went on to urge that "piecemeal solutions offer no hope, a global enterprise is imperative".

And to this capital city, many distinguished dignitaries from petroleum exporting countries have come, of their own accord and free will, exploring avenues for combining fruitfully their money power and their horse-power with the manpower, the skills and the endowment of some of the hardest hit countries. They and others of their kind have already set up mechanisms to invest a part of their funds in the development of developing countries and yet another part in promising ventures in the developed world.

Mr Kissinger has clearly perceived, if I may again quote from his Address that

"this is not a conventional diplomatic problem which can be dealt with by conventional diplomacy or on the basis of conventional premises of social and economic theory. Did we not err when we believed that the economic order evolved at Brethen Woods and Torquay-Annecey had in it the means for the progress and prosperity for all the peoples of the world? Did we not then forget that all countries in the world did not have, when we embarked on the third quarter of the current century, a homogenous economic and social structure? Do we not all suffer today because the mechanisms that we created sought to apply common rules and principles to situations which were essentially diverse and divergent? This is a mistake which I feel we must now take very great care to avoid.

Here is another set of questions for you to ponder over. Have we not over the last twenty-five years attached disproportionate importance to possession of money, to ownership of financial resources? I remember when I was doing the rounds in western Europe in the 60s seeking financial resources to develop our natural endowments. I was told by a famous Finance minister that money does not grow on trees". What shall we now say when money is being pumped out of the bowels of the earth, from underneath the desert sands?

## glib arguments

Perhaps this makes it necessary for us to reflect on the conventional attitude of owners of capital. Have not some of them not glibly argued in the past that those who do not have money to buy what they need should tighten their belts and do without what they cannot buy? If we apply this conventional wisdom to the industrial countries which currently face seemingly unmanageable payment deficits, would their continued prosperity not be at stake? If we continue to apply the conventional attitude to the developing countries whose deficits have suffered a drastic deterioration, would we not put into a reverse gear their effort to develop their resources and to utilise their innate creative capacity? If this chain reaction is to be avoided, it is necessary to restore to "capital" its true function and to devise new ways for its transfer from those who have it to those who need it, so that all available capital is efficiently used, in the service of global growth and social justice.

Let me turn to yet another aspect of our conventional wisdom. You have al-

ready seen that terms of trade constitute a potent factor in determining the import capacity of a developing country. The processes which determine the content and contour of this factor require, in my view to be looked into with care. How are these terms of trade determined? I am told that this is a function of market forces. But who controls or directs these market forces? The experience of OPEC with the price of petroleum may perhaps throw some light.

In 1959, if I am not wrong, seven of the big multinational oil companies got together and decided to cut unilaterally the price they were paying for petroleum. Stunned by their high-handed decision, five big countries met in Baghdad and decided "to create an organisation for regular consultation and for the coordination of oil policies". For many years, OPEC continued to be dismissed by western diplomats and businessmen as a "quarrelling collection of Middle-Eastern camel sheikhdoms and Latin American banana republics". However, the march of decolonization led to a steady rise in OPEC's membership to include Algeria, Qatar and the United Arab Emirates. The swelling surge of nationalism enabled them to demand that control over their natural resources should be taken away from foreign companies. The emerging unity of the Group of 77 in UNCTAD and in the United Nations provided political support for their demand and strengthened their claim to a fair price. The non-aligned raised the banner for putting an end to the economic serfdom of poor nations that were politically free. While political pressures were being thus built up the improvident use of a finite resource by the industrial nations increased their dependence on the countries that owned it. Finally, a unique convergence of economic and political factors, globally as well as regionally, made it possible for the petroleum exporting group of developing countries to demand and determine the value they thought fit to put on their natural resource.

## search for the key

Thirteen developing countries now hold in their hands a key to the solution of their developmental problems but other countries have yet to discover such a key.

In using this key, the petroleum exporting countries, however, have repeated the error of applying a common solution to divergent economic situations. They have made no distinction between those who can offer to pay a high price and those who are too poor to pay it, between those who

use a scarce resource improvidently and those who need more of it for modest economic progress, between those who were managing to thwart their legitimate aspirations and those who were supporting them in their struggle. In consequence, the first dramatic success of developing countries in revaluing their natural resources has improved the financial position of some and worsened that of other developing countries. The consequential deterioration in the terms of trade of oil-importing developing countries has been so deep that the cumulative burdens on them now mount to staggering proportions.

This situation in the developing world has led interested quarters to put forward the argument that improvement in commodity prices is, *per se*, detrimental to the interest of developing countries as a whole. I submit that this argument is fallacious. We should not allow it to persuade the international community to weaken in its resolve to build up the import capacities of poor countries through improvement in their commodity prices. At the same time, we should actively seek remedies for neutralising the unintended side-effects on consuming developing countries of improvements in commodity pricing.

## worrying aspect

In seeking these remedies it is necessary to bear in mind that the recent increase in the prices of some commodities have been partly due to inflationary pressures and monetary instability and the worrying aspect of the hike in petroleum prices is largely to be attributed to its abruptness and also to its isolation from an orderly movement aimed at betterment of the terms of trade, on a broad front, for developing countries as a whole. Since failure in this important field has so largely contributed to the current crisis, it is vital to ensure that no further time is lost in making a determined effort to succeed.

The global enterprise we have talked about earlier must urgently seek to devise ways and means to rebuild and improve as soon as possible the import capacity of the developing countries who have suffered deterioration in their terms of trade. I believe that if we all cooperate, this can be done in an orderly manner. I make bold to put forward some constructive solutions to this end.

First the effort should be undertaken simultaneously on a broad front.

Second the aim of the effort should be

to secure a steady upward movement. A gradual rise in prices of commodities will make adjustment easier.

Third, the operation of market forces must be effectively contained, *inter alia*, through corrective intervention. The petroleum exporters have a unique opportunity. They could mitigate in some measure the unintended consequences of their action by devoting a part of their surpluses to strengthen the holding power of poor commodity producers. In this way they would be helping to weaken the hold of speculative capital on the market.

## unique relationship

Fourth, in view of the crucial importance of maintaining and augmenting the real purchasing power of commodities exported by developing countries, a unique relationship should be established between the prices of their export products with the prices of their essential imports. Such indexation will serve as a monetary tool for securing a degree of evenness in price movements.

Fifth, the need for differentiated solutions to cater for varying supply and demand situations should be recognised. In the case of scarce commodities, while conservation measures will need to be adopted by affluent countries, a rise in share will need to be made available to the poor countries. In the case of commodities in the surplus situations, it will be necessary to stimulate demand and develop end-uses.

Sixth, a reverse GSP Scheme in respect of commodities exported by developing countries may prove to be a dependable device for securing differential results.

Seventh, where a reverse GSP Scheme is not found to be feasible, the importing developing countries should be protected against unintended side effects only through the delegation of historic prices to the historic volume of their essential imports.

It will take some time before the imbalance in terms of trade is rectified. Meanwhile, our global enterprise will have to adjust itself to other measures for rebuilding the shattered import capacity.

This is not a narrow interest of MSAC's alone. I will try to show that the world as a whole will benefit from this exercise.

You are aware of the make-shift arrangements that were made over the last 12 months. These have kept the international system of trade and payments ticking. But the adverse effects are be-



ginning to be felt in the economies of many nations, both developed and developing. The meetings which have recently concluded in Washington have fortunately taken some unorthodox decisions. The new mechanisms will enable the holders of petro-money to recycle their funds, so that the deficit countries pay for their imports on due dates. It is expected that these exercises will provide breathing time for the global enterprise to take off.

We must really look beyond recycling to the real problems and try to see how we can grapple with them. When I do this, I detect a silver lining in the overhanging clouds. I see in the developments which have taken place an opportunity for the international community to devote a portion of its global monetary resources to investment in adaptation of national productive structures and international trading patterns to the needs of tomorrow rather than those of yesterday.

## not so frightening

Some are however frightened by the dimensions of the problems. If the amounts involved in international trade in petroleum are viewed in the world scale, the proportion will not appear to be too frightening. The net addition to the average cost of industrial products is only a small one. We are frightened because the addition takes place in the midst of rampant inflation. Let us hope that the attempts currently under way in the industrial nations to contain inflationary pressures will succeed.

The industrial nations are directing their present efforts to conserve energy, to find substitutes for petroleum and to restrain wasteful consumption. If their efforts succeed, I do not see any great difficulty in their being able to transfer a small portion of their output to meet the increased cost of petroleum and other raw materials.

There is no real threat to their standard of living or way of life. The increases in their productivity will take more than adequate care of the payments they are expected to make. I do nevertheless see some difficulty on the part of industrial nations in being able to produce all that the OPEC may need and be able to pay for. It will take time for them to adapt their productive structures to meet the sudden spurt in the demand for sophisticated equipments. In any case, the mental and physical constraints on their work force will determine the extent

to which the demand for labour intensive products could be met from the production of industrial nations only. Fortunately, a reservoir of surplus skills and idle productive capacity is available in some of the industrialising countries. But it is necessary for this reservoir to be tapped and activated. Efforts to this end will be thrice blessed. First, the industrial nations will be able to adapt their productive structures on the basis of efficient resource utilisation; second, the OPEC buyers will be able to obtain their requirements on a more economical basis; and third, the industrialising countries will acquire additional purchase power to buy more of their needs from the industrial nations.

## investing in their future

It is, of course, for those who have money to decide as to how they will use their monetary resources. I am sure they have plans for investing these resources in their own future. Even the investment on futuristic development within their own countries will take time to materialise. They will also have plans for profitable investments elsewhere. We have heard of various Funds having been set up to facilitate investment in developing countries. We have also heard of their plans to invest surplus resources—in real estate, in industrial stock and in government securities of the industrial nations. It is too early for the mind to be made up on the variety of choices that are clearly available. In making these choices national interest must obviously predominate. But the indirect effect of these choices on production and employment elsewhere is also an important factor to be taken into account. If the choices that spread the benefits of production and employment to many nations and large numbers of people are preferred, perhaps the national interest itself will be better served.

To sum up:

First, the crisis that faces the world originates in the failure to implement the provisions of the Development Strategy for Global Growth and Social Justice. In consequence, a diverging pattern of difficulties face the nations which have economic power, those which have money as also those which lack capital but have abundant resources in men and materials.

Second, we have made a fortunate discovery that the difficulties which face one group of nations provide a key to the solution of the difficulties that face other groups. This discovery enables us to

think in terms of an interlocking Programme of Action, transforming each set of difficulty into a key to unlock the locked doors that bar the path of the other groups to programme.

Third, since the imbalance in terms of trade lies at the root of the crisis, a serious effort should be urgently initiated to rectify it.

Fourth, new solutions are called for to deal with problems relating to use and supply of money, and to payment and financial transfers. These should include provisions for adjustment of terms and conditions and procedures for the movement of money from the area of surplus to the area of need to the differential requirements of strong and weak economies.

Fifth, the import capacity of the Most Seriously Affected Countries must be maintained without adding to their already heavy debt burdens. It should be recognized that while rich nations should meet their deficits through transfers of real resources, the transfer of such resources from poor importers to affluent exporters ill accords with the new order.

## case of weak economies

Sixth, the principle of compensation to neutralise the high import cost to weak economies must be accepted by all well-to-do exporting nations, irrespective of their socio-economic systems.

Seventh, national productive structures of both developed and developing countries need to be adopted and built up to meet their mutual requirements and in particular those of nations whose natural resources are currently fuelling economic activity in different parts of the world.

Lastly, the emerging environment requires national attitudes to production and investment to be increasingly based on rational and efficient utilisation of the various production factors within the reach of different nations. To this end, the countries which lack capital must facilitate its inflow, and those that lack manpower and natural resources must concert means to optimise their utilisation.

The might of the crisis that has overtaken us holds within it the rays of the dawn that may still break in the coming months of this year. If that happens, we can soon resume with greater hope the onward march towards Global Growth and succeed in securing Social Justice.



# Pressures on the food economy

Jagjivan Ram

As you would, no doubt, be aware, the world economic situation was already difficult at the beginning of the seventies. The pressure of fast expanding demand, specially from the highly industrialised countries, on the limited resources and the productive capacity of the world had already been felt rather keenly and set the economists, as also others, thinking as to whether there were no limits to growth of the world economy and whether the limited resources could not be conserved for the use of the generations to come. The developing countries wondered whether and to what extent they could develop their own economies and improve the levels of living of their peoples, specially the weaker sections, in the face of the growing pressure of population, inability to raise adequate resources for development from within, inadequate access to the world market, and the diminishing prospect of the advanced countries helping the developing ones, even to the limited extent of just about one per cent of their gross national products, the declared aim of the so-called first Development Decade.

## crop failures

The economic situation which had already been deteriorating became worse in 1972 when the world witnessed an unprecedented phenomenon of simultaneous crop failures in several sub-continents including the USSR, China, India and South-East Asia, and worst of all, the Sahelian Africa. For the first time since the Second World War, world foodgrain production declined in absolute terms, by as much as 33 million tonnes. The severity of the emerging food problem could be easily appreciated if this decline is considered against the background of the fact that the world production of cereals alone has to increase by about 25 million tonnes per annum to meet the rising demand. Naturally, the world had to eat into its stocks which declined rapidly to precariously low levels. The world food situation became so serious as to bring the international community almost on the brink of disaster, the current consumption requirements having had to be met on virtually a month to month basis from

current production, which had its own in-built uncertainties.

Not only this. The wide gulf between the demand for foodgrains and supplies from current production in 1972 led to such a sharp upturn in the prices of foodgrains as was never witnessed before. Even heavily surplus countries, such as the USA, experienced a steep rise in the retail prices of foodgrains and consequently of chemical fertilisers, etc.

## pushed to the wall

In the race for commercial purchases of foodgrains and chemical fertilisers in the international markets, some of the developing countries such as India found themselves almost pushed aside due to their inability to pay high prices and to find foreign exchange needed for the purpose. The high prices paid for oil, foodgrains, fertilisers and pesticides, imported from other countries, far in excess of even the increased costs of production, has resulted in rapid impoverishment of India and other similarly placed countries, by the heavy transfer of resources to the richer countries, in this manner. The worldwide shortages of foodgrains thus affected the developing countries such as India more adversely than many others.

In India, there was a severe drought during the year 1972-73 and the foodgrain production fell by as much as eight million tonnes equivalent to the annual consumption requirements of nearly 50 million people. This, however, was only one side of the problem, which could be met to a great extent by drawing down the stocks built in the earlier years and such imports as could be arranged. The more important side of the problem related to the purchasing power in the hands of the people which also dwindled as the crops failed. The government had, therefore, to organise relief works and other relief operations on a massive scale at a very high cost. A sum of about Rs 4,000 million was released to state governments for drought relief operations during 1972-73 and 1973-74. The employment on various relief works touched a record level of 5.5 million persons in May 1973. Naturally, this entailed a sharp rise in expenditure from the

public exchequer. Budgetary deficit increased and a sharp expansion in money supply became inescapable. In the result, the prices, specially of foodgrain and other essential commodities, took a sharp upturn adding to the difficulties of the people.

In the developing countries, such as India, where bulk of the consumption expenditure is accounted for by food items, food prices set the pace for the general price level. The best way to contain price inflation, therefore, is to bring about an improvement in the balance between demand for and supply of foodgrains and related essential items. We in this country, therefore, launched in 1973-74 a coordinated production effort involving extension of cultivation of high yielding varieties and arrangements for the supply of inputs such as quality seeds, fertilisers and pesticides, provision of institutional credit, etc. We did achieve a measure of success in this inasmuch as the production of foodgrains increased during 1973-74 by 6½ million tonnes despite adverse weather conditions during the winter season.

## world output

The world output of foodgrains too registered an increase of four per cent or so in 1973. In view of this, and the experience of 1972 which reminded the world of the critical dependence of agriculture on the behaviour of weather, it was expected that serious efforts would continue to be made worldwide, and in the developing countries in particular for bringing about sustained increases in production and stocks of foodgrains so as to keep the people on the safer side of the starvation line.

Meanwhile the drastic change that had come about in the structure of prices of oil and even more of oil-based products such as fertilisers and pesticides upset the balance of payments for the non-oil producing countries, specially the developing ones, for which the situation had already become very difficult in the wake of the earlier food crisis. As far as India is concerned, it is well known that nearly 80 per cent of the foreign exchange earnings has had to be spent on imports of oil, fer-

ertilisers and food alone. No doubt, the exports have shown a noticeable increase but the increase has not been adequate to meet the expanding import bill. All this has meant reduced availability of essential goods leading to inflationary pressures with consequent suffering to the majority of the population already on low subsistence level. Similar must be the situation in other affected developing countries. It is indeed tragic that in the present critical situation when such developing countries need more assistance, and that too urgently, the pattern of trade and so-called aid, of which so much is talked about, is actually resulting in transfer of even their limited resources to the richer countries.

## continued impoverishment

This would mean not only no further improvement in their economic health but continued impoverishment with nothing to look forward to, for want to investment, without which improvement in production and services would not be possible. One of the anomalies of the current situation is that even essential agricultural inputs such as fertilizers and pesticides are available to the farmers in developed countries at almost half the price at which they are exported to the poor developing countries. To expect agricultural production to go up substantially in such a situation is asking for the impossible. This is a situation which the world community can ignore only at its own peril. The gravity of the matter is so serious that it cannot brook any delay. Means must, therefore, be found to ensure that there is a positive transfer of adequate resources to the developing countries to enable them to increase production, particularly of essential goods such as foodgrains, in the shortest possible time.

High prices and restricted availability of oil-based products, such as fertilisers and pesticides, not only lead to an increase in the cost of production of agricultural commodities but also set a limit to the growth of output. In a situation like this, price incentives for encouraging agricultural production can play only a limited role in as much as the farmers' capacity to take full advantage of such incentives is restricted due to reduced availability of the critical inputs. Until this situation improves, greater reliance would need to be placed on inputs that are relatively unaffected by the energy crisis.

In view of this, as also the urgency of increasing agricultural production we took

several initiatives during the current agricultural year. Special regional meetings were held with the state governments to identify the issues requiring immediate action and to ensure proper implementation of the various development programmes. To relieve the shortage of power for tubewells in the states of Punjab, Haryana and Uttar Pradesh, a Contingency Plan was prepared to divert power from other areas and sectors. Arrangements were also made to meet the requirements of diesel for agricultural purposes. A programme was taken up for the development of local manurial resources both in the rural and urban areas. I might mention that we are trying to instal 100 thousand bio-gas plants based on cow-dung in the rural areas, for the production of fuel gas for domestic use and good quality manure for agriculture. Stress is being laid on the development of irrigation and production and use of quality seeds.

We are also making efforts to evolve alternative cropping strategy for rainfed and drought prone areas so as to minimise the impact of aberrant weather conditions. Although the crop recently harvested suffered a set back due to failure of rain in parts of the country and floods in other parts, the crops sown at the commencement of this winter season present a hopeful picture. Many parts of the country received welcome rains in October, December and more recently in early January also. Food prices have witnessed some fall and we expect further easing of the situation when the standing rabi crops are harvested next April-May.

As I mentioned earlier, the developing countries find themselves today in a vicious circle. This vicious circle has to be broken. Given the will all round, it should not be difficult to find the necessary solutions. In the first place, the advanced in-

dustrialised countries could help by re-allocating priorities for their internal production, imports, and export, so as to enable the developing countries to have a greater access to the world markets and, through this, to acquire the much needed foreign exchange. As you all know, the share of the non-oil producing developing countries in total world trade, small as it had already been, has declined significantly over the years, so that even otherwise there is a need to boost their exports. Secondly, the industrially advanced and the oil producing countries could provide development assistance in large measure to the non-oil-producing developing countries so as to enable them to expand their economies, specially in the agricultural sector, at a much faster rate, and achieve a stage of self-sustained growth in the foreseeable future.

May I restate in this context, that according to the projections made by FAO, the cereals deficit of the developing market economy countries could rise by 1985 to as much as 85 million tonnes which, at 1973-74 average price of US dollar 200 per ton of all cereals, would require 17,000 million dollars per annum, a staggering figure indeed. And, it was in view of this, that the World Food Conference held recently in Rome recognised the need for the international community to assist the developing countries in augmenting their production of foodgrains. Thirdly, to meet their immediate needs, the non-oil producing developing countries could be given adequate loans of foreign exchange at concessional rates. I am glad to note that initiatives in this direction are being taken by the world financial institutions.

For the world as a whole, I feel there is considerable room for economy in the use of energy and food, by changing the

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composition of the diet so as to avoid wasteful use of agricultural products to overfeed, in quality or quantity, a few, at the risk of depriving many of any food whatsoever. Food habits could change, and new sources of energy could be identified, developed and tapped so as to reduce the critical dependence on oil,

The sun is an inexhaustible reservoir of energy. It is for scientists to devise methods to harness this energy. Greater reliance could be placed on the use of products with low energy content. Efforts could also be made for a more intensive use of energy through recycling.

I do not claim to have identified

the remedies to the vexed and the mixed problems of inflation, energy crisis and trade dilemmas, but I am sure that, given the will and a spirit of cooperation on the part of the international community, we will get over the difficulties sooner rather than later.

# The facts of a new economic order

**Claude Cheysson**  
Commissioner for Development Aid,  
European Economic Community

THE ECONOMIC order of today is different from that of yesterday. This is a fact, one can like it or dislike it, one can complain or applaud, one can dream about the past; it is a fact, we have entered a new economic order. The point is that it should be better than the one before.

The new facts of this new order appeared at the time of the so-called economic crisis. The fact that there is an economic crisis cannot be disputed and I beg you, although you are talking about problems of development of the third world, not to forget that the OECD countries are very badly struck by the crisis. The growth in GNP, which had reached some six per cent average for the OECD countries in 1973 over 1972 has fallen to quarter per cent and will not go beyond 0.5 per cent in 1975 over and above 1974.

## balance of payments

The balance of payment problems are extremely difficult and the countries that had a deficit in 1973 in the community — Denmark, Ireland, Italy, United Kingdom — have doubled their deficit; those that had a balance, such as France, are now in deficit. Altogether, the additional deficit of balance of payment that we have to pay due to the crisis represents 2 to 3 per cent of our GNP.

Inflation which had been there for a long time before the crisis has now reached peaks with an average of more than 13 per cent in 1974. Governments having used traditional and classical deflationary measures, have seen the beginning of recession. Unemployment has reached the figures which start political crisis, social commotion. The one-million figure is a kind of holy figure in Germany, France, in Britain and they are all under the light.

This has not been evenly shared by the Community members and one, Germany, has done better than the others. Two have done worse than others — Italy and Great Britain. This resulted in internal tensions which are very serious. You should not ignore the psychological and political implications of this crisis. When one is sick, one has a tendency to close the windows and one has a tendency to refuse to see even friends. There is now a tendency to isolationism in everyone of the OECD countries, from the USA to France and other European countries and this counter-current which what had happened during the past few years a very alarming sign.

## grim picture

As a result of this also the weakest or the ones who feel that they are the weakest have accepted a larger degree of dependence of their economy, of their policies. As you may have read in the press, the chairman of the European Commission, Francis Xovin Ortoli, a few days ago was denouncing the increase of dependence of European countries with regard to the United States.

So the picture is grim on our side. Still there are some rays of hope, in particular the fact that, after a very long period of prosperity, the signs of a serious crisis have led those who have to think in terms of long term perspective to consider those perspective with greater care and with greater understanding and intelligence. I mean of course the bankers and the industrialists, who cannot afford thinking in short term. I mean also trade unions and often public opinion as well as the press. The fact that the press now speaks of long-term perspec-

tives is one of the few rays of hope which we have in Europe.

The implications of the crisis for the developing countries have been shown during the last two days, so I shall be very brief about that. Still I would like to recall that the most seriously affected countries in the world are developing countries. They are those who were close to "absolute poverty" to take Mr Mac-Namara's expression "this one billion inhabitants" which has now lost even the hope to pull themselves up with their own resources. They were struck by the crisis, which resulted in fantastic increases in the prices of imports which are essential to life and did not get substantially better returns for their exports. My friend, Ambassador Lall, when he signed an agreement recently was saying: "We thought we could see the light. We were struck by the storm; the tunnel caved in, the light seemed to go out." This is the situation for the most seriously affected countries, one billion inhabitants in the world.

## precarious position

Other countries have done better, those countries whose exports had increased in value at the same time when the cost of their imports was increasing. They have a new balance between their exports and their imports, they seem to be in a better situation. But for many of them, the situation is extremely precarious and it will remain so as long as we have the present balance in the commodity world markets, as long as these countries are suppliers of the economic growth in the world and not the partners in this world growth.

The oil producers are, of course, those for whom the crisis was the most favourable.

ble. Some 70 to 80 billion dollars were paid to them additionally in 1974 — 10 to 15 billion from the third world, 65 to 70 billion from the industrialised world.

According to OECD statistics, imports from oil producing countries which were around 28 billion dollars in 1973 will reach nearly 70 billion dollars in 1975. Still they have many problems of development, due to the rapidity of the jump into this very modern type of society, calling for industrial and agricultural advancement. For other oil producing countries, there are surpluses which cannot be used by them.

In brief, out of the crisis, it appears that there are various types of situations, of development. Indeed the nature of requirements for development is very different from one case to another. For the more seriously affected countries, it is the financial facilities that are needed. For those who depend almost entirely on exports of one or two commodities, the need is for stabilisation of their revenue, of the returns for their exports. For those that have now every chance to develop, it is a conjunction of technical, industrial, and scientific cooperation. For all of them, it is an access to markets, which will result in better development of their commercial ability.

## fruits of unity

Between the developing countries struck by the crisis a number of political and psychological elements have also appeared. For some it is fear, fear of collapse, fear of chaos with everything that it may mean in political terms. For almost all of them, it is a contention of the established order which should result into progress because it is going to be a driving force throughout the world. The tone of the latest United Nations meeting confirms that this contention will not be satisfied with long tedious speeches but will result into a constant pressure to change the rules of the game. There is also this new feeling that sticking together gives you an additional force. There is one doubt that the demonstration made by the oil producers, however, unpleasant for a number of us, in particular for the European countries, has taught a lesson. Developing countries when they stand together for a certain power, can build up strength and bring about some degree of equality between industrialised countries and developing countries. We have to accept it and I frankly welcome it.

Facing that now situation, what should

we do? Of course we can keep on thinking of the past recalling the good days of the old order. I don't think this is the proper approach, the approach of responsible political leaders, responsible economists, journalists or financial writers. What we should do is to see the problems and devise new rules of the game. Most urgent of course is to meet the financial requirements of the most seriously affected countries. The first thing to do was to avoid that they should perish under the strain of the first months of the crisis. If someone is hurt on the road first you heal his wounds. The wounds have to be healed and this was the purpose of the decision taken by the United Nations during the extraordinary session: an emergency action was to be undertaken through which 3,000 million dollars would be made available to these 25-30 countries most seriously affected by the crisis.

The recommendations of the United Nations, criticised by many, has proved useful. The UN had to see that money was made available and it turned out to be a success mostly due to immediate action by the oil producing countries. We had hoped that they would give some 1500 million dollars of the total figure. In fact, we know already that in this 12 months period—July 1974 to June 1975—their contribution in accordance with the very strict criteria decided by the United Nations go far beyond that figure of two billions. The industrialised countries have also contributed as they should. The contribution of some of them is particularly striking and confirms that there was a ray of hope due to the reaction of public opinion and the press.

## UN special account

A country like Switzerland with five million inhabitants has put 15 million dollars in this UN Special account. Sweden has put 37 million dollars for eight million inhabitants; Yugoslavia in spite of its difficulties has put seven million. I am pleased that the European Community has played a leading role in advancing the ideal although it was not among the first contributors. The Community has kept to its word and that was confirmed by our council of ministers meeting just a few days ago. We shall pay 500 million dollars to which we were committed.

I am sorry that the reaction was not the same everywhere. It is very surprising that the government of the United States decided not to take part in the exercise. It is all the more surprising when we think that every time in history when there has

been a catastrophe in the world, reactions and emotions in the American public opinion have been among the most powerful. So I really cannot understand what happened this time. I am also sorry that the socialist countries have kept out of this effort. It is true that they can argue that they are not responsible for this crisis, but they nevertheless are part of the world community. We all welcome their participation in an increasing number of international conferences like the World Food Conference recently and we found difficult to understand that they should not be among us when the problem was to save the life of the most seriously affected countries. The purpose of all this exercise was simply to give a breathing space. It was not less but it was no more.

## official development assistance

The new financial problems which these countries encounter with the increase in their import bill have to be faced. This will not be covered through a fund, but through a reorganisation and redistribution of financial flows throughout the world and a very substantial increase in those financial flows. According to the figure of the World Bank, official development assistance should grow from 10 billion dollars — the level in 1973—to 20 billion in 1980 for an average growth of eight per cent which is unacceptable as it means a decrease in GNP for a number of countries. ODA should grow to at least 25 billion dollars within the next five years to guarantee a two per cent average growth for the developing countries. At the same time, the borrowing capacity of these countries should be increased from nine to 23 billion dollars.

Roughly there should be some 30 billion dollars made available by 1980 in one form or another to the developing countries and in addition there should be the redistribution corresponding to the present economic circumstances with roughly 80 per cent of ODA and financial facilities to the MSAs and 20 per cent to the non-MSAs. These are impressive figures but they are not the figures that scare me.

Let me in this context recall the fantastic effort already made by the oil producing countries. The figures given by the OECD at the end of November, 1974 showed commitments by OPEC countries to developing countries are of the order of 10 billion dollars with actual disbursements reaching already 2.6 billion dollars.

## POINTS OF VIEW

This means that in the first year when the oil producing countries have received very substantial additional flows of money, their official development assistance has passed the European figure plus the American figure in commitments and has almost reached in disbursements the lower of the two which is the American figure. This is not sufficient but the hope is very great as we know of the further intentions of the oil producing countries. Every possible effort should be made to increase such flows and I welcome, therefore, the decision taken recently by the International Monetary Fund, with a view to borrowing on the oil producing financial markets for the purpose of extending to developing countries with a rebate in the rate of interest for the most seriously affected countries. I also welcome Mr McNamara's approach in his speeches. Every industrialised country should contribute to that effort through decisions taken at world level and also through its direct action in a number of developing countries.

### appropriate answer

Oil producing countries are anxious not only to give money for development but also to invest money in profitable industrial, agricultural or other economic ventures. In many cases, the famous triangulation between facilities in the developing countries — peace, raw materials and commodities, ambitions to develop, the capital flowing from oil producing countries and the complement that we can and should bring in the form of additional markets, technology, know-how—is the appropriate answer. This conjunction can be extremely profitable and can result in very important ventures which will ultimately help in organising this much needed larger financial flow.

Let me turn to another important point which is the world food situation. I consider that in such a period the increase in the food aid programme is a must. I consider that the figure given as an objective by the FAO of 10 million tonnes of grains to be supplied as food aid, is the Bible. The Community is ready to play its part in building up a food aid programme and stocks. But I believe that where the European Community has a major role to play is food supplies. The crops which the world is short of can in many cases be developed in all parts of the world and through a common agricultural policy. We have a system of planning for agricultural production which is unique in the world. We can and

we should include among our targets to be covered by the planning of the common agricultural policy the production of those additional quantities of food which are badly needed. Of course, this should not be done in isolation; this should be done in close conjunction with the assessments made by the FAO or by the new World Food Council in order that our additional production should take its place within world food requirements. This should not, however, mean competition with new or additional productions at home which remains, of course, the first objective.

The second field where new rules of the game have to be established is the field of raw materials and commodities. The UN Extraordinary Session in the Spring of 1974 has given the facts of the matter. We can agree here that a situation in which wheat price can be multiplied by two or three in a space of 18 months, sugar price can go up from one to six in less than one year, raw material prices can be multiplied by two or three or four in a matter of less than one year, such a situation is unbearable. At least it is unbearable for those countries which have to import such essential goods or for countries that depend on the export of such goods for their revenue, for their economic life. Which are those countries? Well, they are the developing countries, but they are also all those industrialised countries that have a confined space. There is a great geo-political difference between the countries in Europe or Japan so heavily dependent on imports and the countries with large economic spaces such as the USSR or the USA. Therefore, our economic external relations are a part of our life.

### common interest

We have to find a way to consolidate our external relations in terms of economics. We cannot afford the kind of risks which can be taken easily by those countries which are not importers of raw materials and commodities. In other words, in the field of raw materials and commodities, our interests are, in many cases, much closer to the interests of the developing countries than to the interests of those industrialised countries with large economic space. This is a new aspect of life which should be given due consideration. The final result should be world commodity agreements which would be different from one commodity to another. Such agreements should result in a certain degree of guarantee of sale of those products, a certain degree of guarantee of

prices with a certain degree of reference to the prices of the other products, be they manufactured goods or other. This will indeed take a very long time to establish. In my opinion, we have gone through a ten-year period which was a period of independence of a number of colonial countries. We are entering a ten-year period which will be a period of raw materials and commodities, of organisation of world markets. It will be a slow progress as the interest of all are not identical — still progress should be made when and where it is feasible.

### three approaches

In that respect I would like to recall three approaches now made by the Community and which fit well with this suggestion that we should try and progress when it is possible. In our present negotiations with the 45 so-called ACP countries, the all of Black Africa plus a few countries in the Caribbean and the Pacific, we have proposed to guarantee the nominal return of their exports, product-wise. In other words, should Ghana in 1978 get less for its cocoa sales to Europe than the average of the three previous years, we undertake to pay the difference. It is a right to compensation for the difference and it is as important, I consider, as it is to have unemployment allowances for our workers at home when they are unemployed. We guarantee to the producers who sell to our markets that, if there is a natural catastrophe or if prices fall in the world market, they will have a minimum return, i.e., the return they got on an average during the three preceding years. It is the right to compensation which is the important part of the story.

The second approach goes further and introduces a kind of sliding scale. On sugar we want to enter into a system with the ACP sugar producers according to which, as was the case under the Commonwealth Sugar Agreement, we guarantee to buy a certain quantity against a guarantee of supply but this is additional to the previous Commonwealth Sugar Agreement — we also guarantee a minimum price which is the same price as we pay to our own producers. The countries concerned may still take advantage of the market and get a higher price but in any case the prices paid to them will not fall below the price that we pay to the producers and as it is the price that we pay to our producers it indexed with the cost of production. We know very well that we, do, in fact, guarantee the producers against increase in the cost of production. Otherwise, they would stop

producing sugar beet. We extend the same guarantee to the ACP countries.

Thirdly—this aspect has not yet been mentioned in public—and subsequent to the suggestion made by partners in the developing world, the Community has stated that it is ready to consider long-term agreements for the supply of some of the agricultural products which we produce. With the guarantee of supply and system of pricing that would be pre-determined, it would enable them to plan knowing exactly how much they will have to pay for their own purchases of agricultural product. For a number of countries which cannot grow grains for instance, due to climatic conditions, this is very important. The country with which we are negotiating this, first and foremost, imports that commodity for 500 million dollars per annum and has a population of 10 to 15 million inhabitants. You can see the importance for them if they knew that for that part of their imports they have a pre-determined price evolution in direct relation with prices elsewhere.

All of us have to join forces to come to a better deal on raw materials and commodities, this is in my view one of the most important aspects of this new economic order. Meanwhile the most crucial issue will be, as Ambassador Lall puts it, that we find the means in order that the import capacities of countries should not be impaired, and for some of them, in order that their import capacity should be increased through the development of their export returns.

## access to markets

For the industrialised countries that have very big markets, it amounts to give an access as free as possible to our markets. There it has been the consistent EEC policy to enter into a so-called General System of Preferences which was started a few years ago. Our GSP now covers very substantial figures: the maximum that could be introduced duty-free in the Common Market almost reaches now three billion dollars per annum. It is an inducement to industrialisation as it bears mostly on industrialised and processed products. We want to make it a permanent system although it was adopted on a temporary basis. Much will depend, of course, on what the other industrial countries will do. But I am already pleased that the Trade Act recently passed in Washington has at long last decided on the General System of Preferences with regard to the American market. We

want to make the GSP a permanent system and this is a part of the assistance that we can give in this new order. In some cases, however, our ambition is greater and we feel that we should not only give free access but guaranteed access in a certain manner.

Then we come to the idea that there will be, probably on a regional basis, fields where economies can be better integrated or made more inter-dependent than they are now. We have to see how we can encourage our operators, industrialists, bankers, traders and brokers to enter into joint ventures of a long duration with developing countries on which we depend for the supply of some materials or capital. Such joint ventures can be entered into through joint investment which between us is becoming a more effective proposition now that there is oil producing countries' money available for investments, provided they are profitable. It can also take other forms that exist even with socialist countries where no foreign investment is allowed. This is the whole idea of long term contracting with certain industrial development taking place in developing countries for the sake of our market or at least partly for the sake of our market, the sales of the corresponding production being guaranteed under long-term contracts.

## role of companies

In all these fields you realise that the operators, the companies, will be the leaders and not the governments or the public authorities. National or private companies will decide on the fields where such joint ventures can be entered into because it makes economic sense in guaranteeing supply, in establishing that inter-dependence. Consequently, we will have to work more closely than in the past with our companies, our bankers, the economists who know about business, the financial writers. All this, of course, should be accompanied by an access to the technology developed by the industrialised countries, such a cell being the result of various preliminary actions. Of course, there are classical means of technical cooperation such as training, scholarship, technical assistance etc. which are not being ignored and are of particular significance in the field of agriculture.

But, in the field of industry, I want to draw your attention to the fact that the technology which is required for the development which you have in mind, for the development which is coming so fast now in some oil producing countries and

in some of the neighbouring countries, that kind of technology is not the technology which is taught in the universities or which is available to governments. It is know-how, it is experience, it is management, capabilities and this kind of technology will not result from formal agreements between governments or agreements with the Community; it will result from direct investments by donors and others in ventures in which they have themselves a direct stake.

After we have considered these various means of action, I believe it is the conjunction of these means which, can be found to be a satisfactory solution. Every one of them has been known for years and it is by combining them that we can hopefully make progress

## policy of partnership

The idea that there should be conjunction of the means is not new to a country which belongs to the Commonwealth. But it is new to many other countries. In particular, when you are in the United States, there is always the tendency to consider that assistance to development is only of a financial nature. This is not our belief and this is why the Community has a preference for the so-called association, a policy of partnership. Through contractual agreements we can enter into a comprehensive system of aid to development, combining (as we shall do with the 45 countries, or with the countries of the South Mediterranean) financial assistance, possibly food supplies, technical assistance, trade promotion, access to the market, guarantee of export returns and institutional facilities thus enabling our partners to enter into contact with our public opinion, with our parliamentarians, our trade unions, our press.

It is important to remember here that industrialised countries cannot have a development aid policy which would be split from the other policies. It is true when they decide to open a line of credit or financial facilities, that what they give is not available at home but it is just as true in many other fields. If we decide to give free access to our markets, it means their production entering into direct competition with our own production. In the agricultural field we see that every day in Europe and in our negotiations with ACP or Mediterranean countries the main difficulty has been that duty-free entry into the Common Market means direct competition with our farmers. There will come a day when



we have a better division of labour, as I feel should be the case.

So, there is a direct conjunction to make between our internal policies and our development aid policies. In other words development aid policies should be at the very centre of thinking of governments, it should be a subject for discussion, beyond governments, between all the political forces in a country. There will be no real development aid policy, if this is limited to the opening of credits. If we want to go further, trade unions, Parliaments, the press and the people should be involved. All this requires a lot of imagination.

In the olden days one would find a thinker sitting on a banch or a stone. Today thinkers cannot sit any more they have to run around to gather information, to listen to others. Today problems of development have to be reinvented by you, whereas in the past, there has been an effort, often very sincere to try and pass to you the lessons that we have learnt ourselves.

## imagination required

Everything has to be reinvented when you think of the many mistakes that have been made with development having no roots in the culture, in the society of the countries that we were pretending to help. You have a right to develop, but also a right to remain yourself. So, imagination is badly needed, and this will be one of the challenges of tomorrow.

As you see, my whole reasoning is definitely for the new order. But, I am afraid, I have to say that I have not put myself in the perspective of the club of Rome. Another meeting would be needed, if you were to consider what would happen in a world that would run short of everything, that could be suffocated by the excess of population. Still, I think this is not the problem of today, not the problem of tomorrow. I respect the thinkers of the club of Rome for their long-term considerations which must be kept in mind. But today and tomorrow the problems are different, there is still enough for us to progress, and I am convinced mankind has a kind of genius that will make it possible that there will be enough still for many years to come. When your chairman wrote to me in October he said:

"We believe the EEC has a central role to play in giving lead to new perspectives of international cooperation, both political and economic."

I think he is right; at least I think it

should be that way. First, no industrialised country can be indifferent to what is happening now. Men are dying, this is a problem for all of us. There can be no peace in the world if there are tensions and injustice bearing on millions of people. We have a responsibility in the creation of the order that prevailed so far. We built it for our own sake. We were often responsible for your economic development for tens of years, if not centuries. We thus have a direct responsibility. But it is not only on moral ground that we cannot be indifferent; the whole economic balance depends on the resolution of this crisis. We need your markets. There is money floating around the world in search for investment possibilities. The development is a must for you, and it is also a must for the economic order.

But, more precisely for Europe, as I told you earlier, countries with unlimited supplies must compensate those small states by a consolidation of a number of their economic external relations. It is for us a 'must'. We have to compensate the small

size of the markets of our own states. I think the time is better now than ever before for this endeavour. As I have said, our industrialists were very much afraid when they felt they could be strangled. They are more decided now to look outside. They are anxious to enter into the new markets, because they want to sell more and the new markets are in the developing countries. They are anxious to have access to the new financial resources which exist mostly in the oil producing countries, and all this is in the interest of our bankers, industrialists.

It is a grand design, it is a vision of co-operation, not of confrontation. Here I should say that Europe needs cooperation. The risk for Europe is too big if there is confrontation. So it is my hope that we shall play a central role. But, again, much will depend on how we can cooperate with you in setting out what should be done to turn the present crisis into a motive, into a force for progress.

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# Cautious east-west economic relations

London

Josselyn Hennessy

## Politics Condition Trade

THE SUDDEN upsurge in east-west trade in the early 1970s, after two decades of stagnation, revived in the west the old hope, dating back to the days of the common struggle against the Axis powers in World War-II, that increased economic interdependence between the capitalist and communist systems may result in the gradual dismantling of military and political rivalries between them. Some people even see east-west trade as a means of inducing political change in the USSR towards greater liberalism at home and greater tolerance for the aspirations of the people of eastern Europe, who have been under Soviet rule since 1945.

How realistic is the hope that western aided modernisation will make the USSR

where the traditional markets and partners of the most developed east European countries were, as a threat to the political and economic hegemony that he was establishing. When Czechoslovakia's government, under a Communist prime minister, announced that it was interested in the US offer to join in what was later to become the Marshall Plan for the recovery of Europe in 1947, Stalin forbade it to do so. From then on, the limits of east European countries' economic sovereignty became steadily narrower.

Apart from purely political reasons for wanting to strengthen its control over eastern Europe, Russia had clear economic objectives there. In Soviet eyes, eastern Europe, especially the more developed countries such as Czechoslovakia, Hungary and East Germany, were important sources of raw materials and

what was provided as part of UNRRA and other relief programmes.

In addition, Russia's new "socialist commonwealth" became a vast workshop for Russian orders for machines, equipment and consumer goods. Moscow expected all eastern European countries to embark on Soviet-style industrialisation emphasising heavy industry. This was followed later by the collectivisation of agriculture everywhere, except in Poland and also Yugoslavia, which had embarked on its own version of collectivisation upon leaving the Soviet bloc in 1949, but abandoned it in 1953. This enforced industrialisation raised fewer problems in the largely agrarian countries of south-eastern Europe, such as Rumania and Bulgaria and even Hungary, even though Hungary had considerable industry in a predominantly agrarian economy. But collectivisation was a vast and costly upheaval for an industrialised country such as Czechoslovakia, for example, whose real strength was in light industry.

## trade reorientation

As soon as the process of the communist take-over of power was completed in 1948, the USSR compelled Czechoslovakia to drop its trading partners in the west and to reorientate its trade towards the Soviet bloc. From that time on, Czechoslovakia was obliged to become the main supplier of electric and diesel locomotives, presses, forges, rolling mills, diesel generators, river boats and chemical equipment for the USSR. By 1964, 40 per cent of Czechoslovak exports went to the USSR and only 15 per cent to non-communist countries. Poland, too was forced into an about turn: before the war, the USA was its main trading partner and the USSR accounted for only one per cent of Poland's foreign trade.

In a way, life for east European exports became easy; the Soviet market took everything, but the easier that it became to sell there, the more difficult was it to sell in discriminating and demanding western markets. Foreign trade was only one example of how, tied to the Soviet Union, with its lagging technology, east European economies dropped even further behind western Europe. The more developed east

# WINDOW ON THE WORLD

more liberal at home and more ready for compromises on the international scene?

How strong are the forces in the Soviet bloc on whom these hopes are pinned?

Russia's postwar policies in eastern Europe provide clues, none of them especially encouraging.

Under Stalin, the USSR opposed the western powers' postwar efforts to liberalise international trade and to promote multilateralism in east-west relations. Stalin sought to consolidate Soviet control over the newly acquired empire in eastern Europe. Stalin looked upon an economic opening towards the west,

machines for its own postwar recovery and the second phase of its industrialisation which began as soon as the recovery had been completed. From further enemy countries (East Germany, Hungary, Rumania, and Bulgaria) Russia is estimated to have taken some \$15-20,000 million in reparations, dismantling and occupation costs. Former allied countries (Czechoslovakia, Poland, Yugoslavia), too, made their contribution by delivery prices well below world market prices.

In contrast, the much maligned US "imperialism" put up an estimated \$19,000 million into western Europe's economies—and this quite apart from

European countries, such as Czechoslovakia (and others too to a certain extent), resented being asked to pass on what they had in the way of a technological lead over the Soviet Union and the less developed east Europeans, because at the same time they remained cut off from the sources of really advanced technology in the west.

## II

### Shift of Priorities after Stalin

Stalin's death gave the east European leaders a chance to shift their economic priorities, i.e. to revive their trade with the west and to put less emphasis on heavy industry in their domestic development plans. Trade with the west began to rise and some attention was given to agriculture and the light food industries. But the rapid recovery of the Soviet economy in the first few years of Khrushchev's rule and its ability to increase deliveries to eastern Europe, including industrial materials, encouraged the east Europeans to resume their expansion of heavy industry. The output of the heavy manufacturing industries especially machinery and equipment, was expanded in order to use and pay for these additional Soviet deliveries. This in turn created new opportunities for investment. Fast economic growth to the limit of each country's economic resources remained official policy until the early 1960s.

The leading Czechoslovak reformer Professor Ota Sik, has given a vivid description of this "production for production's sake" policy, which later caused serious upheavals and forced a change of course. In one of his television lectures shortly before the Soviet invasion in the summer of 1958, he said: "Our main investments were in the sphere of mining, steel works, heavy industry and the like. It is understandable that other countries must also invest to a certain degree in these branches of industry. But we gave them top priority. For instance, in 1948 we invested in mining, in the utilisation of fuels, in electric power, and in metallurgy 35 per cent of our total investment; in 1963, 44.5 per cent; and in 1966, over 47 per cent. The expansion of this branch of industry was such that our economy could not carry it. . . In other words, the creation of heavy machinery production required more and more steel, therefore we had to build steel works, and the building of steel works required large construction works, which in turn required again heavy machinery. And as the heavy machinery industry increased, it again required steel works, and so on. In other words, they delivered to

each other. According to the plan balance sheet, everything was in order. There was always a certain demand which was met from resources, but the end result for the population was minimal". (Ota Sik, *The Bureaucratic Economy*, 1967).

As a result of mounting difficulties and criticism from the population, all the east European regimes had to scale down their targets: Bulgaria and East Germany in 1961; Czechoslovakia in 1962, and Hungary and Poland in 1963. This was followed by various economic reforms, beginning with the East German "new economic system of planning and management" in mid 1963. Criticism had focused on mistakes in economic policy and the inefficiencies of bureaucratic control. The reforms sought to correct these weaknesses by giving the planners the training and tools needed to support economic policy, by gradually handing over economic decisions to industrial managers and replacing the sanctions of plan fulfilment by those of the market.

### limited objectives

Party leaders accepted these reforms with serious reservations and in some countries, such as East Germany, ensured that they remained limited so as to prevent them from spilling over into the country's political life. But in other countries this process proved more difficult to control. The leaders' limited objectives were transformed by those who were told to execute them into something far more comprehensive and challenging. The intellectuals who were given the job in Czechoslovakia grasped that, to achieve a substantial improvement in the country's economic performance, the whole system would have to be changed. It is not a coincidence that this was realised with such clarity in Czechoslovakia, which before the war had a strong parliamentary system based on a prosperous capitalist economy. As Sik and other reform leaders in Czechoslovakia later admitted, the search for a better-balanced "new socialist model" for Czechoslovakia half-way between capitalism and administrative socialism contained in itself a strong element of political pluralism. And so political liberalisation in the eyes of the Czechoslovak intelligentsia soon became an aim almost as important as the original aim of getting the country out of the economic trough into which years of Stalinist mismanagement had driven it. Moscow was of course also alarmed that expanded relations with the west were one of the basic features of the reform programme aimed at

revitalising the Czechoslovak economy during the Prague spring in 1968. Neither this nor political reforms were what the Soviet leaders had originally and reluctantly agreed to as a limited rescue operation for the ailing east European economies. So they set about to reverse the process.

Even before the soviet invasion in August 1968, had put an end to the Czechoslovak experiment, reforms had lost their momentum in East Germany, Poland Bulgaria and even Russia itself (Rumania had by then embarked on its lonely nationalist challenge to Moscow with little or no thought of domestic liberalisation). Only Hungary was continuing its own cautious but well thought out reforms, launched in January 1968, only a few months before the Czechoslovak crisis. But even after the invasion of Czechoslovakia, Hungary's unwavering loyalty to Moscow in foreign policy, as well as the memory of the 1956 uprising, ensured that it was allowed to get on with its economic reform programme. Like that in Czechoslovakia, this involved a substantial degree of decentralisation of economic decision-making and of liberalisation of foreign trade. All this was done in strict isolation from the political framework, which remained intact. But despite its undoubted economic successes, the Hungarian reform too has now lost much of its original momentum. Much more ominously, several protagonists of the new economic course were demoted in February 1974, and were replaced by more orthodox party men in the Hungarian politburo. The primacy of of politics over economics is now restored.

### fruits of the reform

This has not happened solely or even primarily on orders from Moscow. Hungary's own critics of the new economic system have played a big role in its virtual immobilisation. These critics have been helped by the disappointment felt by many workers in Hungary with the fruits of the reforms. In Czechoslovakia, there had been too little time to put the feelings of the workers and the population at large to the test. But even in the short period between January, and August, 1968, there were already signs of working-class doubts about some of the measures put forward in answer to Czechoslovakia's lagging industrial performance. This was particularly true of plans to introduce bigger differentials as an incentive for skilled workers and technical staff.

In Hungary, the gains made by the

professional people, the managers, and the higher-paid workers since 1968 have provoked resentment, which has delighted the more orthodox hardliners, who had been sceptical about the reforms on other grounds. Moscow has welcomed the appearance of these new allies within eastern European countries as a brake on undesirable reforms. Russia's own extremely limited reforms started in 1966-67 are now proceeding even more slowly and cautiously.

### III

## Technocrats Defeated

In terms of classes and groups that influence policy, it could be argued that a combination of external and internal circumstances has led to a big defeat for the pro-western managerial technocrats, who have been supplanted not necessarily by old-style Stalinists but by extremely cautious pragmatists and opportunists afraid of undue risks. Of necessity, some further experimentation certainly goes on (in Poland for example) but within a still more limited framework. Those responsible for economic policy, must now act with an eye not only on Moscow and their more conservative brethren in eastern Europe, but also on critical domestic opinion at home, composed partly of resentful workers and partly of the much smaller but nevertheless influential coalition of conservatives and younger idealists in the party apparatus and outside in the universities, who instinctively suspect anything that smacks of capitalism, profits, etc.

To limit the impact of any changes in the economy is one thing; to ensure that the economy goes on developing at a satisfactory rate of growth is another.

The economy's ability to deliver the promised higher standards of living to the masses—an enormously important objective for the whole Soviet bloc since the Polish riots in December, 1970—is kept in mind by the leaders. Russia's own rate of growth has slowed down alarmingly in the past few years, and the same has happened elsewhere in the bloc with the exception of Poland and Rumania. Having rejected the idea of big reforms as a way out, Soviet leaders hope that increased economic contacts with the west as a means of obtaining the necessary know-how and modern technology will serve as well if not better.

In this context, these economic relations with the west are crucial. It is not so much a matter of vast direct investments by the west, which would be

difficult to integrate with the Soviet system without disrupting it and causing political instability. It is much more a question of obtaining western aid for a limited number of really crucial projects, in high technology especially, plus the credits to finance them. Later on, having made a start on the opening of vast resources in Siberia, Moscow calculates that the USSR may be able to do without western aid. The persistence with which the Soviet leaders have been pushing their ideas and plans in the west, especially in the USA, West Germany and Japan—the three industrial countries in which Russia is most interested—shows what importance they attach to western capital and technology. But as the experience with the Fiat car project in Togliatti since 1965 has shown, the Soviet government is not prepared to open its country to anyone any more than the strict minimum necessary. The Soviets do not want prolonged foreign presence in the USSR.

## cautious approach

Moscow is enforcing the same caution on its east European partners. The extreme caution with which they have all tackled so-called joint ventures with western companies is an example. Apart from Yugoslavia, which has not been subject to Soviet discipline, and Rumania which has since 1964 carved out a more independent position within the bloc, other east European countries have not been ready to allow foreign firms on their soil. There have for years been plenty of joint ventures in third countries, as well as straightforward production-sharing, i.e. production in, say, Hungary or Poland, for assembly elsewhere or vice versa, but that has been all. Only in July of 1974 did Hungary set up two such joint ventures on its own soil—one with the Swedish car firm Volvo, the other with the West German Siemens. Poland is considering a step in this direction, but Czechoslovakia (mindful of what happened in 1968) is planning no thing like that yet.

Moscow is anxious to help its east European partners to reduce their huge deficits on trade with the west by increasing their exports to those countries. These deficits have, of course, grown as a result both of the inflation in the west and specific problems, such as the oil crisis. But here the east Europeans face the same problem that they first encountered in the 1950s. Years of easy exports to the Soviet market have reduced their fitness to compete with western manufacturers. The east Europeans want to find other ways of tying western firms to themselves and obliging them to push

their joint interests on western and other markets. This is probably the background to the decision to try out joint ventures after all. But the clear Soviet proviso is that there shall be no repetition of what happened in Czechoslovakia in 1968. In other words, the west is expected to deliver its goods, but not to reap any political advantages from them. The Soviet Union seeks to reconcile three aims: (1) the maintenance of a reasonable rate of economic growth, (2) the preservation of a large measure of control over eastern Europe's economic contacts with the west and (3) the restriction to a minimum of outside influence on existing economic institutions. An east German commentator put it extremely clearly last year:

"There can not and will not be any free movement for the capitalist way of making money; no peaceful mixture of a bit of capitalism and a bit of socialism. We do not cook an ideological or economic stew with capitalism. Peaceful co-existence means sensible cooperation with a simultaneous and unmistakable delimitation of political and economic systems. This also calls for never slackening vigilance vis a vis imperialism". (H. Grothe, East Berlin Television, February 8 1973).

## vital interests

Of course it could be argued that this is just the voice of East Germany, still the most conservative and embattled of east European governments (which incidentally manages to keep its own technological short-cut in the form of intra-German trade with direct access to the Common Market!). Some of the others, except Russia itself, are probably vitally interested in these contacts and strongly tempted to risk something in the interests of obtaining the great benefits that such cooperation undoubtedly gives those communist countries who embark on it. But the present prolonged ideological and political campaign in eastern Europe is designed precisely to guard against the temptation of even brief flirtations with the west, while yet obtaining western goods. It is designed to ensure that no undue expectations are aroused by the increasing economic contacts with the west, and that once these contacts take place, they do not develop beyond the strictly defined limits laid down by Moscow.

**Sources and acknowledgements:** The foregoing summarises, by special arrangements, a report in the latest issue of *European Trends*, published quarterly, to subscribers only by the Economist Intelligence Unit, but the EIU is responsible neither for the emphasis of my summary nor for my interspersed comments based on a variety of sources.

# Towards a united front

E.B. Brook  
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WITH AN agreement in Washington over methods of recycling the billions of dollars earned by oil-producers, a distinctly protectionist State of the Union message from President Ford and bank purchase of majority holdings in major industries in West Germany the oil-consuming west have sought to arm themselves after mutual squabbles for nearly 18 months against the effects of higher energy prices.

They are not measures taken by an assured industrial world; they are protective moves taken by very alarmed states who realise their arguments between the Common Market and the USA and between the USA and France have used up precious time during which all of them have moved fast towards runaway inflation, shakier currencies and dangerously rising unemployment. The intensive last-minute efforts by Washington to avert a clash between the USA and the Common Market before the monetary conference opened was a sign of the intense disunity over methods of bringing the middle-east's dollars into rational investment and industrial use and the determination of both west Europe and the USA not to be left holding the baby of major responsibility for helping the weaker oil-users if they ran into financial difficulties. Only with reluctant difficulty was a compromise, born of the knowledge that failure to agree could be catastrophic, between the Kissinger plan for a 25,000 million dollar lending fund for major oil consuming nations and the European plans for a petrodollar recycling facility within the International Monetary Fund, achieved.

## deeper understanding

A major outcome of the several quick secret trips between Washington and Bonn, conducted by Dr Burns, chairman of the US Federal Reserve System who, fluent in German, enjoys far greater prestige in West Germany than any other American financial official, was a far closer moving together between the Americans and West Germans, backed by an assurance of extensive German Central Bank support of the dollar. The Americans see in still prosperous and a very determined West Germany a far better assurance of support in Europe than France moving towards negotiations between oil-producers and oil-users and than in a often disunited Common Market.

Germany's pragmatic Chancellor

Schmidt, despite his socialism, stands far closer to the basic American attitude that industry must pick up and continue to grow than any other European leader. The Americans are still the most aggressive towards the oil producers of any of the users but recent protective purchase of majority holdings in the German Krupps concern and the massive Good Hope mining and engineering combine to keep middle-east majority purchases at bay showed that the Germans, though intent on keeping the best relations with Arabs and Iranians, were equally determined to adopt a defensive attitude. The purchase is itself something of a gamble depending for success on the continuing profitability of the two great firms which, in turn, depends on the availability to them of sufficient industrial fuel. But, having seen some weaker holders of Daimler Benz blocks of shares sell with almost demonstrative secrecy to Arab investors, the German government and banks were not prepared to wait for legislative processes before they stepped in to forestall others from yielding to the lure of liquidity at the risk of permitting embarrassing foreign majority holdings in their prestige industries.

## fear of unemployment

Self-protection is the keynote of contemporary west European policies. They are alarmed less about middle-east money as an investment weapon than they are about their banking systems and, above all about unemployment. With bitter memories of the '20s and '30s and their outcome the European governments fear unemployment more than anything else. Their fear may be misplaced, for circumstances in social security and political attitudes are far different from those of 50 years ago. The almost complete change of attitude by President Ford who now recommends tax reliefs and protective charges instead of a policy of non-interference which he announced on taking office is a case in point. The heavy lay-offs of foreign labour throughout west and central Europe and the adoption of short-time working to avoid discharges are other signs that growing worklessness and a falling standard of living are alarming the governments. Rising prices, worklessness or short-time are the effects of the higher oil and energy prices that are most obvious to the people who are

voters and on whose content depends peaceful civil government.

In the USA more than seven per cent of labour force is workless; German unemployment is probably now over the million mark; the French, rather luckier, have approaching 900,000 seeking jobs and in Italy lay-offs and short weeks have increased since the beginning of the autumn and there is no likelihood of improvement before the late spring. Everywhere in the Common Market the number of workers unemployed or short time has risen very sharply in recent weeks. Workers due to retire in the next few years are being offered incentives to cease working earlier; short working weeks and short time in rotation are other devices used universally to disguise the real extent of west Europe's unemployment and to preserve content.

## rising bankruptcies

Similarly, in west Europe and the USA the number of bankruptcies of persons and businesses doubled in the last year, industrial output is dropping and consumer-confidence is sagging. The general effect, with inflation averaging about 15 per cent is unsettling.

Of them all, the French are probably the least anxious of the west Europeans. They are holding their own viewpoint as to how best to bring energy problems into solution, insisting on their multi-lateral conference on energy among oil producers, oil consumers and industrially developing countries. President d'Estaing's success in persuading the Americans agreeing to hold the meeting pleases the French and a preparatory conference is expected in Paris in March with the aim to hold a final conference late in the summer.

Two of the "developing" states invited—India and Brazil—produce oil and oil discoveries in Brazil continue. The Algerians, invited as an oil producer, protested rightly that it was a developing nation. The original plan for a "trilateral" conference of producers, users and "developing" is being quietly dropped. The American-backed French initiative may become a major discussion of future production, supply and use of valuable raw materials generally and the French feel that they have given a lead to a longer-term solution of present problems than is provided by any constructions of monetary ingenuity.

**With the way the second International Seminar of Economic Journalists, held recently in New Delhi, went, its sponsors and participants have every reason to be satisfied. Nevertheless, there could be two opinions on some aspects of it as, indeed, there could be more than one opinion on almost every thing on earth or, let me add, in heaven with or without a capital H. It is of course only too true that the presence and participation of men such as Mr Claude Cheysson, commissioner for Development, European Economic Community, Mr Ahmed Kourouss, deputy minister of Economic Affairs and Finance, government of Iran, and Dr K.B. Lall, our ambassador in Brussels, were of much interest and benefit to the deliberations. Nevertheless it seemed to many participants that some of the organizers of the seminar, particularly the ebullient Mr da Cost (president of the Forum of Financial Writers, New Delhi, under the auspices of which the seminar was held), had allowed themselves to be overwhelmed by their indebtedness to the visiting dignitaries for so generously giving of their time.**

Granted that oil is important and Iran even more important, since the Iranian government particularly has been making positive contributions to an understanding or resolution of the problems of the oil price situation and its impact on the world economy, it would still be proper to say that both oil and Iran were allowed to pre-empt the proceedings of the seminar to an undue extent. It could be that this was partly because the young and brilliant Mr Kourouss proved to be such an attractive and effective performer on the platform — his marshalling of figures and arguments was indeed impressive. Again, granted that the forum and the two international seminars sponsored by it owe a great deal to Dr K.B. Lall as its friend, philosopher and guide and that he is peculiarly qualified to speak with knowledge, authority and vision, or even to lay down the law on the issues which were on the agenda this time, it could still be said that the seminar could have been used less obviously or obtrusively for certain diplomatic objectives in which some of us may have or may be considered to have a special interest.

One result of all this was that, quite early on the road, the seminar seemed to have lost track of its agenda. There were speeches and speeches but little discussion, and even with regard to the speeches there were some queer happenings. For instance, a leading industrialist from south India was importuned to attend the seminar and participate in it. But, having persuaded him to do so, those concerned seemed to have promptly lost interest in inviting him to the mike. I should perhaps ascribe this lapse simply to thoughtlessness and the general loss of control over the time-table by those who were guiding its proceedings. I may add also that the industrialist in question could not have cared less and that it is the Forum which is the loser in the sense that, when a difficult and complex enterprise has been organized with such

dedication and enthusiasm by its active members, it is a pity that there should have been avoidable contretemps.

## Not since the second World

War are battles being fought on so many fronts as is the case with *Paffaire Verghese* — and I have a suspicion that more fronts may be opened before the last shot is fired and forgotten. Mr G.S. Bhargava of *The Hindustan Times*, who has taken it upon himself to shed light on the dispute, which its editor is having with its management, has written an article for the *New Statesman*, London, the British part of the readership of which is evidently in need of some diversion which could take its mind off the I.R.A. Mr Bhargava or, perhaps, the subs at the *New Statesman* have given this article the caption "The Birla Letters" which, as Lewis Carroll might have said, is rather odd, for the one and also the only relevant statement which Mr Bhargava has made in this article is that, after asking, "What is in the famous Birla letters?", he has given the answer that, "Frankly, I do not know." Lest anyone might suspect him of wanting in journalistic enterprise or resourcefulness, Mr Bhargava explains that his ignorance is "because Verghese has not even shown them (the letters) to his (Mr Verghese's) wife." I do not know whether the implication is that, had the wife been shown the letters by the husband, Mr Bhargava could somehow or other have managed to have a look at them.

I do not know either whether Mr Bhargava has a grievance that his editor has this unhelpful habit of being secretive within his family circle. It is however clear enough that he has a complaint against Mr (K. K.) Birla who, says Mr Bhargava, has been "cagey" about the contents of his letters. Although Mr Bhargava, as he claims, may not know what is in the Birla letters, he admits that Mr Birla has marked his letters to Mr Verghese as "private and confidential." Having so marked his letters, was Mr Birla supposed to make copies of them and distribute them among all and sundry in which term may be included Mr Bhargava? Incidentally, apart from having learnt that Mr Birla's letters were marked 'private and confidential,' Mr Bhargava seems to have also acquired the additional knowledge that "Mr Birla entered into a long and discursive correspondence." The adjectives, obviously, are used in a pejorative sense and, since it takes two to carry on any correspondence, the fault could not have been entirely Mr Birla's, if in this case the correspondence was "long and discursive."

## Mr Bhargava may not know

what is in the Birla letters, but this has not come in the way of his devoting about one half of his article to figuring out why Mr Birla should have thought it necessary to terminate Mr Verghese's services. He says that, by "observing the development from *The Hindustan Times*' office and piecing together bits of circumstantial evi-

dence" he has been able to make a number of "guesses" — 'inspired', perhaps. I should not grudge him any credit that may accrue to him for his ingenuity, but I have to point out that, so far as making guesses — inspired or otherwise — goes, he has been outsmarted by the local correspondent of the *Newsweek* who had long ago drawn on his imagination even more ungrudgingly to divine what might have prompted Mr Birla to come to the conclusion that it was time for a change of editors at *The Hindustan Times*. Some of us may feel that fair comment has been the first casualty of *Paffaire Verghese*, for it is nothing short of an outrage that libelous or near-libelous charges are being made against the chairman of the board of directors of *The Hindustan Times Limited* by journalists, both Indian and foreign, on what is described as "bits of circumstantial evidence", but which could very easily be no more than bazaar gossip.

According to Mr Bhargava, Mr Birla wrote to Mr Verghese last August terminating his services as from the 28th of February this year. In other words, Mr Verghese has been given six months' notice and no obstacle has been placed in his way of functioning as the effective editor of the newspaper during this period. Yet Mr Bhargava describes this action as something done "abruptly." If Mr Bhargava has not chosen to be so selective in his use of "bits of circumstantial evidence", it should not have been difficult for him to guess — especially as guessing seems to be a strong point with him — that some discussion had probably taken place between Mr Birla and Mr Verghese before the letter in question was written. Again, some goodwill gesture which all progressive managements make to their employees who may be retiring or otherwise departing and which Mr Birla may have held out to Mr Verghese is interpreted by Mr Bhargava as an attempt at bribing Mr Verghese to quit quietly. Malice, it appears, is all.

## Finally, Mr Bhargava has a

dig at journalists who are not concerned about upholding journalistic rights and ethics since they look to the government for providing "cheap housing, automobiles from the official pool, free trips within the country and abroad, assignments from the government in radio and television, and similar perquisites." Are we to infer that Mr Bhargava has been imposing on himself a virtuous regimen of self-denial in these matters? If this were indeed the case, the house he has built for himself on concessional land in the journalists' colony in New Delhi should have come into being in a fit of absent-mindedness. The *New Statesman*, in a footnote to the article, mentions that "Mr G.S. Bhargava is an assistant editor of the *Hindustan Times*, New Delhi." To this may be added the information that, when he was employed by *The Hindustan Times* in this capacity, which was after Mr Verghese had become editor, there was a move in the office to protest against this appointment. I must add, however, that what I have said here is owed to hearsay which, I submit, may not be less reliable or reputable than the "bits of circumstantial evidence" which have set Mr Bhargava off on his guessing game. April 1 will soon be around and while Mr Bhargava must be a strong candidate for the proverbial Fool's regalia, the editor of the *New Statesman* should be no mean rival. When he extended the hospitality of that journal's columns to Mr Bhargava's fulminations, Mr Anthony Howard should have assumed that people would have forgotten that he himself had stepped into the shoes of another and much better man, the late Richard Crossman who had to go (and who did so gracefully) because he had differences with the management.



# MOVING FINGER



## Fruits of teamwork

S. P. Chopra

OUR COUNTRY sought economic assistance from a number of friendly nations during the past two decades so as to quicken the pace of economic development. We were fully aware of our shortcomings, particularly in regard to the paucity of resources and technical knowhow. Happily, many countries held forth their hands of friendship and the USSR occupies a high rank among them. The number of projects which have been completed or are being implemented through Soviet cooperation is equal to 80 and they cover some of the vital sections of our economy. Also, the USSR is among the top four countries which have given generous assistance to our country, the other three being the USA, the UK and West Germany.

### Heavy industry

The bulk of the assistance provided by the USSR is in heavy industry. The Russian technicians who helped in the erection of the Bhilai and Bokaro steel plants deserve our whole-hearted appreciation. What is noteworthy about these steel plants is that their performance as measured by the most rigorous tests has

been of the highest order and has helped this country in saving foreign exchange worth millions of rupees. What is more, Indian technicians have received training in the manufacture of iron and steel not only while operating the above-mentioned two steel plants but also in some of the steel plants in the USSR.

### Pivotal position

Petroleum has, during the last two years, occupied a pivotal position in the world economy specially after the sharp increase in oil prices by the oil-exporting countries of western Asia. The USSR has extended liberal assistance to our country in not only the prospecting of oil-fields but also in the setting up of refineries. Thanks to the training imparted by the USSR technicians to our workers, it is now possible for us to take over the management of all the refineries in our own hands and plan the erection of new ones. Even in the prospecting of oil in the off-shore areas, the USSR was the first to extend its helping hand.

Besides heavy engineering and oil, the USSR has rendered

assistance in the erection of power plants, exploitation of coal resources, manufacture of coal-mining machinery, development of non-ferrous metals (such as copper, aluminium and zinc), manufacture of life-saving medicines, production of medical instruments, fabrication of precision instruments, shipping and ship-building and even in the field of agriculture through model farms. Not only has the USSR provided this country with tractors when their manufacture had not been started but it has also helped in the improvement of many strains of plants. Our country is currently developing sunflower with Soviet cooperation. It may be stated that sunflower has an oil content of 45 to 50 per cent as against 20 to 25 per cent in groundnut.

### Solid foundation

The June 1971 agreement for scientific and technical cooperation in agriculture and animal husbandry laid down a solid foundation for cooperation in this field. The Indian Institute of Technology, Bombay, Geological Department of Osmania University and the Metal-

lurgical Department at Indian Institute of Technology, Kharagpur, received liberal assistance from the Soviet Union. In the field of scientific research, the USSR has provided valuable help in regard to computers, satellites and rocketry.

### Manifold Increase

The trade between the two countries has multiplied manifold since 1953 when the first trade agreement between India and the USSR was signed. It has played a dynamic role in equipping our exporting units with capabilities to be able to export in a competitive manner even to other countries. In 1953, the trade turnover between the two countries was a little more than a crore of rupees but in 1973-74 it exceeded Rs 530 crores. The protocol for 1975 envisages trade turnover of more than Rs 700 crores. Besides the export of such traditional commodities as tea, coffee, deoiled cakes, cashew, spices, tobacco and raw jute our country has exported in recent years increasing quantities of cotton textiles, jute manufactures, handicrafts, readymade garments, linoleum, garage equipments, electronic



motors, batteries, power cables, wire ropes, dyes and tools, detergents, cosmetics and cigarettes.

Over the past two decades the economic and trade relations between India and the

USSR have acquired a firm basis. At the same time, the Indo-Soviet Treaty of Peace, Friendship and Cooperation which was signed on August 9, 1971 gave a comprehensive legal framework of collabo-

ration between the two countries. The Indo-Soviet Joint Commission for Economic, Scientific and Technical Cooperation has provided the institutional framework within which extensive programmes

of teamwork have been worked out. And the next decade promises further intensified co-operation between the two countries in the fields of agriculture, industry, science and technology.

## Mutually beneficial economic ties

V. A. Kuznetsov

Counsellor for Economic Affairs, USSR Embassy in India

THE YEAR 1975 is a remarkable year in the development of mutually beneficial economic ties between India and the USSR.

This year we are celebrating the 20th anniversary of the launching of Soviet-Indian economic cooperation which began with the signing, in February 1955, of an agreement on Soviet assistance to India in the construction of the first stage of the Bhilai Steel Plant. During the last two decades, this cooperation has greatly expanded. About 80 industrial projects have been or are being constructed or designed in India. Out of these, more than 55 projects have already been commissioned. In a majority of cases, these represent large modern metallurgical, engineering, oil producing and refining enterprises, coal mines, power stations, agricultural farms, etc., which contribute considerably to the development of the economy of the country, especially the public sector.

### Variegated products

At present the above-mentioned projects account for one-third of India's output of steel, one-fifth of power generation, 60 per cent of crude production and 30 per cent of oil products, more than 80 per cent metallurgical equipment and a considerable part of power equipment; they also turn out large quantities of drugs including antibiotics.

The year that has just ended was also marked with many significant events in the

development of Indo-Soviet economic cooperation. The most important of them was the second meeting of the Inter-governmental Soviet Indian Commission on Economic, Scientific and Technical Cooperation held in the middle of September in Moscow. Established two years ago, the Commission has already become an effective instrument for arriving at quick decisions on current issues as well as determining the directions of, and drawing up the projects of, mutual cooperation.

### Joint commission

In the course of the second meeting of the Joint Commission which was held in a businesslike atmosphere of mutual understanding, a number of highly important economic issues were discussed. The meeting chalked out a programme of further joint actions aimed at the implementation of the provisions of the important documents signed during the visit of Leonid Brezhnev to India last year. This visit, following the signing of the Treaty of Peace, Friendship and Cooperation, has become another historic landmark in the development of Soviet Indian economic relations.

The 15-year economic and trade cooperation agreement, signed at that time by Mrs. Indira Gandhi and L. I. Brezhnev, as well as other documents, have given a fresh impetus to the development of economic cooperation between the two countries, which has now acquired a

stable a long-term character and which will, as before, be concentrated in such key industries as ferrous metallurgy, power generation, oil production, agriculture and training of specialists.

A review of the work done during the past year shows that, thanks to the efforts of both sides, good results have been achieved, and that the provisions of the documents signed during L. I. Brezhnev's visit are in the process of implementation. Under the conditions of the existing energy crisis, a great deal of attention is being devoted by the two countries to intensify Indo-Soviet collaboration in oil and coal industries. For this purpose, in December 1973 and in January 1974, two teams of experienced Soviet experts headed by the minister of Coal Industry of the USSR, Boris Bratchenko, and the minister of Oil Industry of the USSR, V. D. Shashin, visited India.

### New measures

As a result of the joint work of Indian and Soviet experts, new concrete measures were worked out to intensify geological prospecting and drilling for oil and gas, and to provide the most modern equipment to the Oil and Natural Gas Commission (ONGC). The progress made in the implementation of the techno-economic report on the development of India's oil industry during 1973-83 was also discussed. The implementation of the recommendations contained in this

report will enable the ONGC to considerably increase the production of oil and gas by the end of the fifth five-year Plan period.

### Coal projects

The USSR has also agreed to assist India in the construction of a number of coal projects. A team of Soviet specialists has, jointly with Indian experts, completed the feasibility report on the construction of two open-cast mines at Singrauli (Madhya Pradesh) and the underground coal mine at Raniganj (West Bengal), and has started working on a feasibility report on the construction of a coking coal open-cast mine and washery at Ramgarh (Bihar). The second meeting of the Joint Commission assessed the progress of work on the above projects.

Soviet and Indian organisations are at present engaged in working out technical documentation on the expansion of the Bhilai and Bokaro steel plants, each to a capacity of four million tonnes of steel per year. Detailed project reports have been completed and the division of supplies, as between the Indian and Soviet sides, has been carried out regarding plate mill "3600" and continuous steel casting machines for the Bhilai steel plant and rolling mill "1400" for the Bokaro steel plant. The feasibility report on the expansion of the Bhilai plant to a capacity of seven million tonnes of steel per year is being finalised.

In the second meeting of the Commission concentrated



attention was paid to the coordination of activities of the concerned Soviet and Indian organisations for the expansion of the Bhilai and Bokaro steel plants and for ensuring a further increase in the output of metallurgical, power and other equipment at heavy engineering enterprises in India.

On the basis of the initial data collected by a team of Soviet experts in January-February 1974, a detailed project report on the construc-

tion of a copper concentration complex at Malanijkhand (Madhya Pradesh) is now being prepared. The designing of the largest Indian oil refinery at Mathura, with an annual capacity of six million tonnes of oil, is in full swing.

In view of the decision on the development of production cooperation between the two countries, Soviet experts have collected initial data and are working out a feasibility report on the construction of an alumina plant in Madhya

Pradesh with a capacity of 500,000 tonnes of alumina per year, which will be exported to the USSR.

A team of Soviet experts visited India in September and examined the possibilities of cooperation in the field of machine-tool manufacture. Questions pertaining to cooperation in other industries as well as joint ventures in third countries are also under consideration.

The second meeting of the Joint Commission decided to establish a special working

group (within the framework of the Commission) entrusting it with the task of preparing suggestions in respect of production cooperation. For this purpose a team of highly experienced Soviet experts will be visiting India soon.

The implementation of the provisions of the Protocol signed at the end of the second meeting of the Joint Commission will without doubt lead to further strengthening and deepening of mutually beneficial ties between the two countries.

## Non-ferrous metallurgy from the USSR

G. L. Kozlov

THE SOVIET Union which has sufficient reserves of bauxite, copper, lead, zinc, nickel and tungsten has been able to build up a large-scale non-ferrous metal industry capable of satisfying the rapidly growing need of the country.

According to the current five-year Plan, the output of non-ferrous metals will be 50 per cent higher in 1975 than in 1970.

The USSR shares its experience in non-ferrous metallurgy with developing countries and particularly with India for which non-ferrous metals constitute a vital sector in the scheme of industrialisation.

To meet her growing requirements India has to spend considerable foreign exchange for the import of non-ferrous metals as shown in the table below:

TABLE I  
Imports of Non-ferrous Metals  
1969-70—1973-74

| year    | Rs crores |
|---------|-----------|
| 1969-70 | 74.5      |
| 1970-71 | 119.4     |
| 1971-72 | 102.4     |
| 1972-73 | 109.1     |
| 1973-74 | 139.7     |

Source : Monthly Statistics of Foreign Trade,

In view of this, all efforts

need be directed to increasing indigenous source of supply and developing the necessary technology to convert natural ores into useful metals.

The draft fifth five-year Plan envisages the expansion of existing units and setting up of new enterprises engaged in the production of aluminium, copper, zinc, lead and nickel—all in the public sector.

### Bharat Aluminium

An important role in achieving self reliance in aluminium is to be played by the state-owned Bharat Aluminium Company (BALCO) which is responsible for the construction of two aluminium complexes in Korba (MP) and Ratnagiri (Maharashtra) with total capacity of 150,000 tonnes of aluminium every year.

The Korba Aluminium Complex which is based on bauxite deposits in the Amarkantak and Phutkapahar areas in Madhya Pradesh, and electric power from the Korba Thermal Power Station (Soviet assisted) is expected to produce 100,000 tonnes of aluminium metal per annum, including about 60,000 tonnes of aluminium semis i.e. rolled and extruded products and wire rods.

In accordance with the contract concluded between BALCO and Tsvetmetpromex of the USSR, Soviet orga-

nisations have worked out the Detailed Project Report (DPR) of the smelter and fabrication facilities and have supplied a part of the electrolyzer, rolling and other equipment valued at nine crores of rupees.

The drawings of the aluminium plant were elaborated by MECON (with the participation of Soviet experts) which is designated to be the principal consultant to BALCO for its Korba smelter complex. Most drawings and documents for the first phase of the smelter have been completed. The first phase of the smelter will go on stream in March this year.

### Indo-Soviet Pact

The 15-year Indo-Soviet economic agreement signed during the visit of L. I. Brezhnev, General Secretary of the CPSU Central Committee, to India in November 1973 envisaged, among other things further cooperation in non-ferrous metallurgy.

In pursuance of the Protocol of the Indo-Soviet Commission on Economic, Scientific and Technical Cooperation an export-oriented alumina plant, based on bauxite deposits of Balaghat, Sarguja and Mandla districts of Madhya Pradesh is proposed to be set up. BALCO entered into an ag-

reement with Tsvetmetpromex for the preparation of a feasibility report for the plant.

The feasibility report wherein maximum utilization of indigenous equipment is envisaged will be handed over by the Soviet technicians in March, 1975.

Copper had a very wide range of applications in Indian industry. The demand for copper and its alloys during 1973-74 was of the order of 83,000 tonnes, which is expected to go up to 105,000 tonnes by the end of fifth Plan period. The indigenous production of copper is meagre and, therefore, resort had to be taken to substantial imports from abroad (see table below).

TABLE II  
Imports of Copper  
1969-70—1973-74

| Year    | '000 tonnes | Rs crores |
|---------|-------------|-----------|
| 1969-70 | 46.5        | 47.4      |
| 1970-71 | 51.8        | 60.2      |
| 1971-72 | 56.2        | 51.2      |
| 1972-73 | 54.5        | 48.6      |
| 1973-74 | 42.8        | N.A.      |

Source : Monthly Statistics of Foreign Trade.

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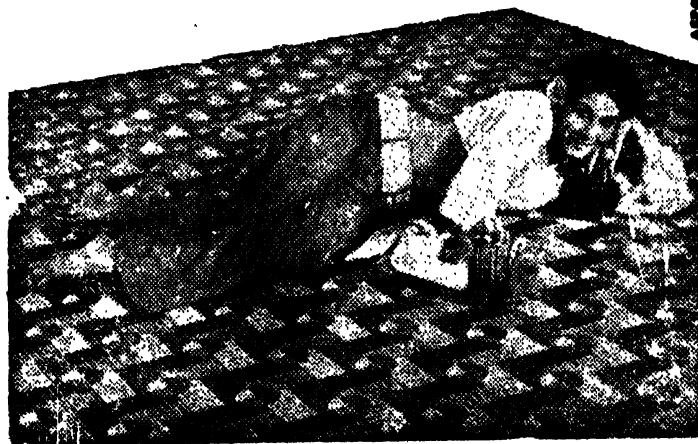
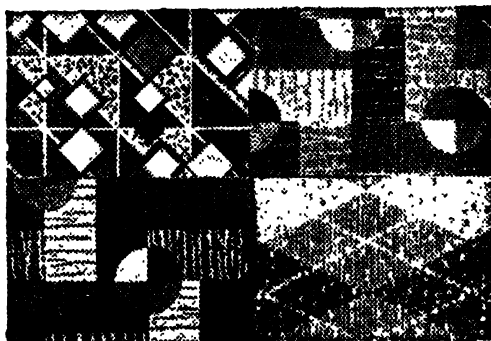
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ports, a number of projects have been taken up for development. As a result, the indigenous production of copper is likely to be substantially increased by the end of the fifth Plan period.

In addition to the copper complex at Ghatsila, in November last the smelter at Khetri was commissioned and was fed with first copper concentrates.

Another ambitious copper project is the Malanjkhand project in Madhya Pradesh. The Hindustan Copper Limited

has signed an agreement with Tsvetmetpromexport of the USSR for the preparation of a detailed project report for the mining operations and the concentration complex at Malanjkhand. The deposits here are estimated to be 78 million tonnes and have a prospect of being considerably increased after additional surveying while copper content of the ore is rather high—1.06 per cent.

The DPR which will be shortly handed over by Soviet experts to the Indian officials

provides for the annual production of three million tonnes of ore which is sufficient for obtaining 27,000 tonnes of copper.

Meanwhile, exploration through surface drilling has been taken up and steps are being taken for the development of infrastructural facilities.

Along with rendering assistance in the construction of the project the USSR supplies a number of non-ferrous metals to India under trade agreement.

It might be of relevance in this context to mention that MMTC's imports of non-ferrous metals from the USSR constituted about 10 per cent of India's total imports in 1973-74 from that country. The imports included such items as zinc, copper, nickel, palladium and platinum.

Like other goods India buys non-ferrous metals in the Soviet Union without spending her hard currency (i.e. trade operations are settled in Indian rupees) and on balanced basis.

## Two decades of purposeful cooperation

L. Klochkovsky

SINCE THE signing of first Indo-Soviet Economic Agreement for the construction of the Bhilai Steel Plant on February 2, 1955, the two countries have traversed a long and fruitful road of cooperation. Indo-Soviet friendship has not only strengthened and expanded but, as Leonid Brezhnev observed, has obtained a new content as a result of the joint efforts of the Soviet Union and India in the world arena. It can very well serve as an example of peaceful coexistence of states with different social systems, striving for the promotion of peaceful, friendly and mutually advantageous contacts.

### Friendly assistance

The Soviet Union extended its hand of friendly assistance to India in the most difficult and important period of her economic development. Of great significance is the Soviet contribution to the development of the heavy industry which is the backbone of the Indian economy. About 80 different industrial plants and other projects have been built or are under construction in India with Soviet assistance. These plants now turn out 30 per cent of steel smelted in India, 80 per cent of the total metallurgical and 60 per cent of power engineering equip-

ment, nearly one-third of oil products and 20 per cent of the total amount of generated electric energy.

The Bhilai Iron and Steel Plant—the first link of Soviet-Indian cooperation—achieved excellent results. Out of the first three public sector iron and steel plants, the Bhilai plant is the best in terms of the main indicators of performance. Metal from Bhilai is exported to many countries. The plant yields the country a stable annual income. The volume of its production has doubled over the past few years. Now Bhilai smelts about two million tonnes of steel a year, and it has been planned to increase its production capacity to four million tonnes of steel per year. Later, the capacity of the plant will be raised to seven million tonnes.

No less indicative is another joint project—the Heavy Electrical Equipment Plant in Hardwar, commissioned five years ago. The plant today turns out sophisticated electrical equipment. In 1974, the plant started the serial production of turbo-generators with a capacity of more than 200,000 kilowatts. The first such turbo-generator has been supplied to the power station being built near Madras. On the whole the Hardwar plant will supply more than 50 per cent of

equipment for the thermal and hydro-power stations under construction in the country.

The assistance of Soviet experts in developing the first Indian earth satellite, became an important trend in Soviet-Indian cooperation. In the near future the Indian sputnik will be put on a near-earth orbit with the help of a Soviet carrier-rocket. Flight control will be carried out by Indian scientists.

### Bilateral trade

Mutually beneficial bilateral trade is yet another field of cooperation that has expanded considerably during the period. It is worth recalling that 20 years ago the annual turnover of Soviet-Indian trade was minimal but today it exceeds 600 million roubles. The Soviet Union has become one of India's main trading partners. It ranked first among the buyers of Indian commodities in 1972-73 and is one of the leading suppliers of goods needed by India.

The high development rate of Soviet-Indian trade is not a mere chance. It is determined by lofty and noble principles underlying close mutual relations: full equality of the two sides, mutual benefit and sincere desire of the USSR to render the Indian people

disinterested assistance in their struggle for economic and social progress. The USSR supplies India with machines and equipment, industrial raw materials and other goods needed by its economy. India covers the purchase of Soviet goods by the sale of her traditional goods as well as products of the young national industry. Now more than 50 per cent of Indian exports to the USSR consist of industrial goods, such as textiles, footwear, rolled stock, pig iron, surgical instruments, optical lenses and many other industrial items.

The Soviet Union trades with India on the most favourable terms. The prices of Soviet goods are comparable to those in the world market. Low interest credits are granted to Indian state organisations and private companies on favourable terms, to be paid off over a long period of time. The recent investigations of the Reserve Bank of India and the Indian Institute of Foreign Trade have shown that India trades with the Soviet Union and other socialist countries on much more favourable terms than with the non-socialist world.

There is every ground to think that economic ties between the USSR and India will go on gaining in scope and strength. The main trends in

the promotion of these ties were determined during Leonid Brezhnev's visit to India in 1973. Broad vistas are opening for mutually advantageous trade. In accordance with the understanding between the two countries trade may double in 1980 as compared with 1973. The Soviet Union will go on rendering India all-round assistance in the development of its economy. The USSR will give assistance in the development of the key branches of the heavy industry (ferrous metallurgy and machine-building first and foremost), as well as power engineering, agriculture, geological survey and training of personnel.

At the same time, the necessary prerequisites are now being created for the establishment of long-term economic contacts between the USSR and India based on the cooperation of production and the organisation of effective division of labour. The agreement on cooperation between the USSR State Planning

Committee and the Planning Commission of India is to play an important part in this.

The further promotion of Soviet-Indian contacts will serve the cause of stronger friendship between the people of the both countries and will make an effective contribution to peace and mutual understanding in Asia.

## Economic ties with west Asian countries

V. L. Korneev

ONE OF the most characteristic features in the development of India's economic relations with foreign countries during the last few years has been a significant widening and deepening of economic ties with west Asian countries, especially Iraq, Iran and the United Arab Emirates (UAE).

Besides the political implications, the process of fostering economic ties with these countries has gained impetus during the last few years due to the necessity of finding an adequate and relatively low-priced source of crude supply to India—the problem which preoccupies a great number of governments in the world nowadays.

It is widely known that the import of crude is now the largest item of foreign exchange expenditure which drains the reserves of many developing countries including India.

### Crude oil import

As indicated in the draft of the fifth five-year Plan, India is to import during 1974-75—1978-79 crude and oil products costing Rs 3080 crores constituting about 22 per cent of the value of India's imports during this period.

Thus, the purchase of crude oil on terms and conditions which currently prevail in the international markets adds a heavy burden on the import bill.

In this context, the development of mutually beneficial economic ties with the oil-producing states is of great

importance and the government of India is understandably taking necessary and timely steps in this regard. While analysing the development of India's ties with oil-producing countries of west Asia, one may study the role of cooperation with socialist countries, and especially with the USSR.

According to press reports, Iraq is to supply to India during the next 12 years about 114 million tonnes of crude from North Roumeilla oil-fields (which have been developed with Soviet technical assistance) for Mathura refinery which is being constructed with Soviet assistance.

### Prospecting in Iraq

The Oil and Natural Gas Commission (ONGC) in India whose experts are now prospecting oil in Iraq was also set up with Soviet assistance. Under the supervision of Soviet scientists, engineers and foremen, over 8,000 Indian technicians have been trained in the complex science of oil prospecting and extraction. Today, the ONGC has at its disposal skilled manpower, research and design institutes, training establishments, production boards etc. All these enable the ONGC to play an important role in India's quest for crude. Quite recently it became known that the ONGC was taking part in oil prospecting in another west Asian country—Iran. India's economic ties with this country have been strengthened recently. The exchange of visits between Mrs Indira Gandhi and the

Shah of Iran has promoted, to a great extent, the development of these ties.

According to the agreement reached in 1974 Iran is to supply annually to India 2.8 million tonnes of crude oil for Madras refinery. This figure will be increased to 3.5 million tonnes after the expansion of this refinery. Besides, Iran is to supply to India additionally one million tonnes of crude oil annually.

### Mutual trade

All these agreements will lead to a substantial rise in the total value of India's imports from Iran which in 1973-74 increased by about 20 per cent as compared with 1972-73 and reached the figure of Rs 145.3 crores. At the same time the value of India's exports to this country in 1973-74 was only 2.9 per cent above the 1972-73 level which resulted in a formidable negative balance of trade at about Rs 120 crores. To reduce this deficit and at the same time to maintain the supply of crude from Iran (which constitutes about 95 per cent of the total value of India's imports from this country), India must increase its exports to Iran. In the implementation of this task, the supply of India's iron ore for metallurgical complexes in Iran (and among them for the metallurgical plant in Isfahan which was built with the Soviet assistance) will play a useful role. At present, the expansion of this plant with Soviet assistance to four million tonnes of steel annually is under con-

sideration. This will create good conditions for India's supply of iron ore to Iran.

Besides the supply of iron ore India is to export to Iran 65,000 tonnes of rolled steel and 120,000 tonnes of steel rails. A substantial part of these supplies will be met by Bhilai Steel Plant which is now the largest active project of Indo-Soviet economic and technical cooperation.

The beginning of 1975 was marked with further developments in the strengthening of India's economic ties with oil-producing west Asian countries.

The exchange of views between Indian officials and visiting delegations of two main Persian Gulf countries—the UAE and Bahrain—showed a good prospect for further progress in the development of economic ties between India and these countries.

### UAE supplies

As it was stated after the conclusion of talks between Indian and the UAE officials, the UAE will supply India a substantial quantity of crude oil on the most favourable terms. To pay for the purchases of crude from the UAE India is to increase its exports to this country. This task was much facilitated by the UAE desire to collaborate with India in the development of basic industries. It is reported that India will assist the UAE in the field of fertilizers, steel and cement plants and other ancillaries.

A team of the public sector

design organisation Metallurgical and Engineering Consultants (India) Ltd, (MECON) visited Dubai in July 1974 and submitted its study report on the building of a sponge iron plant with Indian assistance.

In this respect it is worth recording that MECON is also a project of Indo Soviet economic cooperation, and is similar to the well-known Soviet design institute GYPROMEZ, with which

MECON maintains close ties. On the basis of Soviet technical documentation, catalogues and standards MECON is now making designs for the building of metallurgical complexes both in India and abroad, including many west Asian countries.

As for the supply of metallurgical equipment for these plants a substantial part of it will be met by engineering plants built with Soviet assistance such as Heavy Machine Building Plant (HMBP) at

Ranchi and Mining and Allied Machinery Plant at Durgapur as well as the Heavy Electrical Plant at Hardwar.

These plants constitute now the core of India's heavy engineering and are in a position to produce all kinds of equipment for the setting up of metallurgical plants almost without foreign assistance. For example, HMBP, when it reaches its full capacity, will be able to equip annually a steel plant for the

production of one million tonnes of steel per year, which is equal to the production capacity of the first stage of the Bhilai Steel Plant. And in future the capacity of HMBP is to be doubled.

Thus, there is enough evidence to show that Indo-Soviet economic cooperation is not only a factor in achieving self-sufficiency by the Indian economy, but also helpful in the development of its export potential to cope with the current energy crisis.

## The saga of Indo-Soviet collaboration

INDIA AND the Soviet Union established diplomatic relations on April 13, 1947. It was hailed as a historic step in both countries. The *Hindustan Times* said then that "the present stage is the beginning of a lasting and fruitful friendship between the peoples of India and the USSR" and the Soviet weekly *New Times* characterised it as an event of "international significance", and observed that "India is moving towards an independent policy."

The period 1947 to 1955 was momentous for the world and India. Then came the 1955 Bandung Conference and the enunciation of the *Panchsheel* principles. At Bandung one of the major declarations of the developing countries was on the need for a vigorous struggle for economic independence.

### Panchsheel spirit

Earlier, in July 1954, *Pravda* had welcomed the *Panchsheel* principles, when they were first proclaimed. It commented that ".... these important principles... would diminish the possibility of war, serve to alleviate tension in world community and improve the valuable cooperation between the countries." Soviet support for India's policy of non-alignment and the *Panchsheel* principles became a firm foundation for Indo-Soviet relations.

Thus it was in the struggle

for peace and progress, and for a new international order that the foundations were laid for Indo-Soviet friendship and cooperation. In 1953 a trade agreement was signed between the two countries which sought to raise mutual trade exchanges.

But it was the economic agreement of February 2, 1955 for the construction of the Bhilai steel plant which opened up a new vista of relations between the two countries. What thus began at Bhilai was not only the beginning of Indo-Soviet cooperation, but also of the absorbing story of India's industrialisation.

### Soviet-aided projects

Today about 80 major projects have come up or are coming up in the country through Soviet cooperation. India has emerged as one of the top ten industrial nations of the world and has achieved self-reliance in many vital sectors of the economy. To this extent, it has advanced its economic independence and its prestige in the comity of nations.

And yet, in 1951, when India launched its first five-year Plan, the country was tied to the capitalist world, which continued to treat India as a raw material appendage and a market for export of its goods. However, India undertook a vast historic task to change the life of its people. From its very

inception, Indo-Soviet economic cooperation was geared to India's economic development programme, which carried new provisions on trade, mode of payment, industrial collaboration, transfer of know-how, the training of specialists and skilled manpower both in the USSR and at Indian projects, development of technical consultancy and various other measures, all designed to help India to rapidly develop its economy and attain the goal of self-reliance.

### Total credit

Including the credit for India's fourth five-year Plan, the Soviet Union has so far provided a total credit of Rs 1,002 crores. About 80 projects have been built or are under construction and designing with Soviet assistance. These projects form the hard core of the public sector which has grown in size steadily during the years of planning and development so that today it has not only become a powerful factor in the Indian economy but also sets the pace for further growth. Above all, it is the only sector of the economy promoting scientific and technological development.

Soviet assistance to India has been largely directed to the development of basic industries such as mining of raw materials, ferrous and non-ferrous metals, oil and power, heavy machinery,

drugs and pharmaceuticals, precision instruments, as also to the development of agriculture, science and technology. In all these fields, India has already reached a high level of development.

### Substantial share

The share of the projects in the core sector constructed with Soviet assistance is already substantial—30 per cent in steel production, 50 per cent in oil extraction, 20 per cent in oil refining, 20 per cent in power generation and 80 per cent in metallurgical machinery. The Soviet contribution to the development of non-ferrous metals, drugs and pharmaceuticals, power equipment and others is also substantial.

Steel production is described as a barometer of a country's progress. But in 1955 India's production was only 1.5 million tonnes. Today out of the five integrated steel plants in the public sector, two are assisted by the USSR. They are also the biggest. The Bhilai Steel Plant alone is producing one-third of the total steel output of the country today and it is the most efficient of the steel plants. The Bokaro steel plant, which is the second to come up with Soviet assistance, has already produced 1.5 million tonnes of hot metal. It will be India's biggest steel plant. The growth of these two plants has enabled the country

to save hundreds of crores of rupees by cutting down imports. Bhilai has earned hundreds of crores by the export of its products, while Bokaro has exported pig iron worth Rs 12 crores already.

Bhilai, now of 2.5 million tonne capacity, served as a training ground for the future metallurgists of India. Today it is the Bhilai-trained metallurgists who are guiding the growth of India's steel industry. More than 800 Indian engineers of the plant were trained in the Soviet Union.

Under the agreement of June 3, 1972, further expansion of Bhilai to four million tonnes has been undertaken. This includes the construction of a converter shop, continuous steel casting machines and plate mill "3600", which are the most modern metallurgical machinery. Production of plates at Bhilai will be of momentous significance to the growth of shipbuilding, defence, machine-building and other industries.

Bhilai plant has made a significant impact on the region, and to the economic and social development of Madhya Pradesh. When expanded to seven million tonnes, the plant will have a great influence on the development of the region.

The Bokaro steel plant, which is coming up with Soviet credit and technical assistance under an agreement of January 1965, has already reached the completion of the first stage of 1.7 million tonnes per year. Pig iron production began in October 1972 and steel ingots in December 1973. With the commissioning of the hot strip mill, expected in 1975, Bokaro will be able produce flat steel products. This is expected to make a substantial difference to the steel supply position in the country.

The Bokaro plant is the last word in steel technology. It has been given the latest of everything the USSR has got. Unlike Bhilai, Bokaro

uses the oxygen converter method of steel making which is more economical and productive,

To Bokaro goes the prestige that it is largely an indigenous plant, and it is a tribute to the skill of Indian engineers and workers trained in the Soviet Union, and the enterprise of other public sector projects, which have provided equipments and materials to Bokaro, that the Bokaro plant has not only reached rated capacity but has already set up records in production. Above all, Indian-made equipments have proved their quality test at Bokaro.

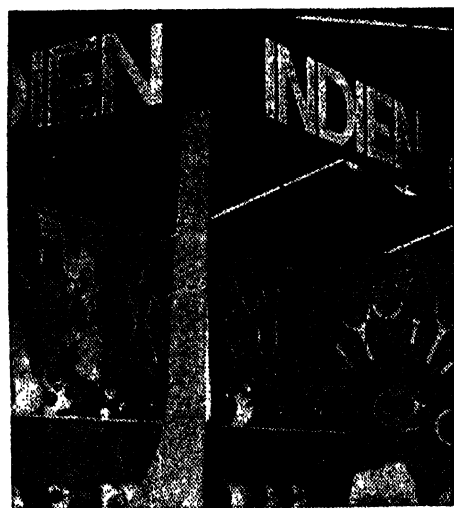
Commissioning of the various units at the second stage of Bokaro, which will ensure production of four million tonnes, will be completed by March 1977, according to present estimates. Bokaro is already the biggest supplier of pig iron to the foundaries of India. The pro-

duction of tinned sheets is expected to accelerate the growth of canning and other agro-industries.

Thus, out of the target of 17.5 million tonnes of ingot steel by the end of the fifth Plan period, Bokaro and Bhilai alone will contribute eight million tonnes.

The decision to expand the capacities of Bhilai and Bokaro steel plants to seven and ten million tonnes respectively was a momentous one. It meant, in effect, doubling the capacities of both, a stupendous task by any reckoning.

At this stage the two plants are expected to activate the growth of a vast infrastructure that boggles one's mind to think. Mr. K. C. Khanna, the Managing Director of Bokaro, feels that Bokaro heralds an "industrial explosion" in the Ranchi, Bokaro Dhanbad and Durgapur belt. He is of the opinion that the



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#### Power industry

Indo-Soviet cooperation made a substantial contribution to the growth of India's power supply and to the creation of a power industry. While Soviet assistance to set up five thermal (Neyveli, Korba, Obra, Patratu, Harduaganj) and five hydro (Bhakra Right Bank, Hirakud, Mettur, Bali-mela, Lower Sileru) power stations, of a total capacity of nearly three million kw, made a significant contribution to power development in various states, Soviet cooperation to set up India's premier power equipment plant at Hardwar with a capacity to produce yearly equipments to generate 2.7 million kw of power was of momentous importance to the country's progress. About 200 engineers of this plant were trained in the Soviet Union.

Since the plant has been completed in 1967, it has produced six 100 MW sets and six 200 MW sets. From 1975, it is expected to produce yearly seven 200 MW sets, as also small hydro-sets and a variety of large motors and accessories. It will meet 50 per cent of the demand for power equipments during the fifth five year Plan.

The Hardwar Heavy Electrical Equipment Plant has put India on the power map of the world by producing such large turbo-generators which only few countries can

produce today. The plant has mastered the technology of the 200 MW sets and is now pioneering the development of the 500 MW sets. It is pertinent to point out here that a 200 MW power station can light a town of a million population.

The Bharat Heavy Electricals Ltd, the apex organisation, is not only producing today all types of power equipments, but also equipping atomic power plants, providing oil drilling rigs and other highly sophisticated items. It is now going into erection and maintenance of power plants, for which special cadres of engineers are being trained in the Soviet Union. This is expected to reduce the period of construction to half.

Today India has reached self-sufficiency in power equipments and has in fact begun a modest export programme. Both in India and abroad, the power equipments produced in India on the basis of Soviet know-how have proved their worth.

#### Pioneer industry

Another major effort of BHEL is directed to develop the MHD generator (Magnetohydrodynamics) in collaboration with the Soviet Union which is the pioneer in this field. The MHD method produces power using hot-coal gas, a process highly economical compared to the traditional methods.

The oil crisis and the steep rise in the price of oil products have made India turn to rapid coal development. This is of crucial importance for the further development of the country. In this task the Soviet Union has promised all-round assistance to India.

Soviet assistance for the development of India's coal industry began in the early sixties. Back in 1962-68 the Soviet Union helped India to build several large coal enterprises: the Banki and Surakhachhar underground mines, the Manikpur open-cast mine in Madhya Pradesh, the Kathara coal washery, a min-

ing equipment factory in Durgapur, and the Central Electrical and Mechanical Workshop in Korba to repair and service mining equipments.

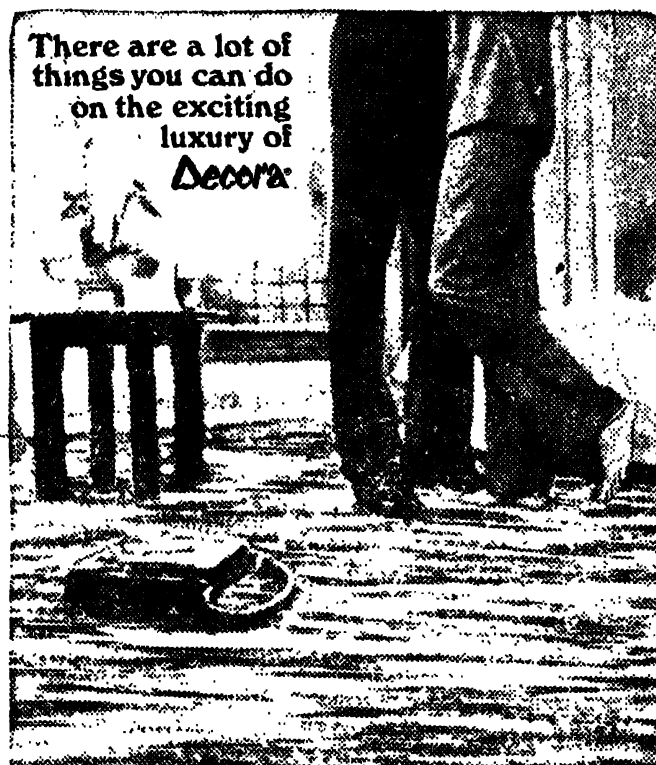
#### New agreement

A new agreement was signed in December 1966, which provided for further development of cooperation between the USSR and India to build five open-cast mines with an annual capacity of 6.5 million tonnes of coking coal to meet the needs of steel mills in Bokaro and Bhilai. This agreement is being implemented now.

India has huge resources of hard coal running into

130,000 million tonnes, with some 13,000 million tonnes being coking coal. Whereas at present India produces nearly 50 million tonnes of coal a year, in 1978-79 the output is to go up to 135 million tonnes.

At present the Central Design Institute in Ranchi is already carrying out, with the help of Soviet specialists, design work on developing coal deposits in Singrauli and Raniganj. Under the new agreement, the Soviet Union will render technical assistance in building two open-cast mines with an annual capacity of 8-10 million tonnes each at the Singrauli coal-field, and two highly mechanised mines, which together will



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produce annually 5.2 million tonnes at the Raniganj coalfield. The new mines are to be equipped with some powerful Soviet mining machinery.

The expansion of the steel plants by 1978-79 necessitates the rapid development of coking coal. Thus, development of coking coal deposits in Ramgarh, (Bihar state), situated near the Bokaro Steel Plant, with Soviet assistance, is being undertaken. It is planned to build at these coal deposits an open-cast mine to produce 3.0 million tonnes of coking coal a year.

Apart from designing and construction of open-cast and deep mines, India will receive Soviet assistance in surveying coal deposits in the Mirzapur area (Uttar Pradesh). The Soviet Union will also provide further training to Indian engineers at Soviet open-cast and deep mines and at research institutions. The Soviet Union is also providing India

technology for deep open-cast mining upto a depth of 400 metres.

The Coal Mining Machinery Plant at Durgapur (West Bengal) was set up in cooperation with the USSR to manufacture 45,000 tonnes of various items of coal mining machinery. It is the country's premier plant in this field and is capable of meeting the entire demand for sophisticated mining equipments.

Because of slack demand in the earlier years for coal mining machinery, the plant has diversified its production. It has already established a good reputation for the manufacture of material handling equipments for ports and large plants. With the nationalisation of coal mines and the new drive for faster coal development, the plant expects to use 75 per cent of its capacity to produce mining equipments. However, it is

expected to carry on production of some of the new lines of products it has already developed recently.

With its modern engineering works, design facilities, technical know-how and highly trained personnel, the Durgapur plant is capable of manufacturing equipment for other major industries such as steel, power, and fertiliser as also for ports. To Bokaro steel plant itself it has supplied over 14,000 tonnes of equipments.

#### Oil prospecting

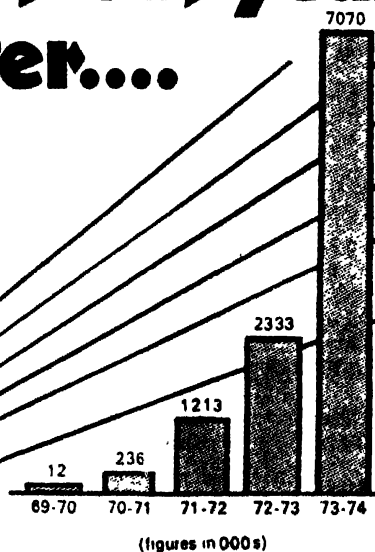
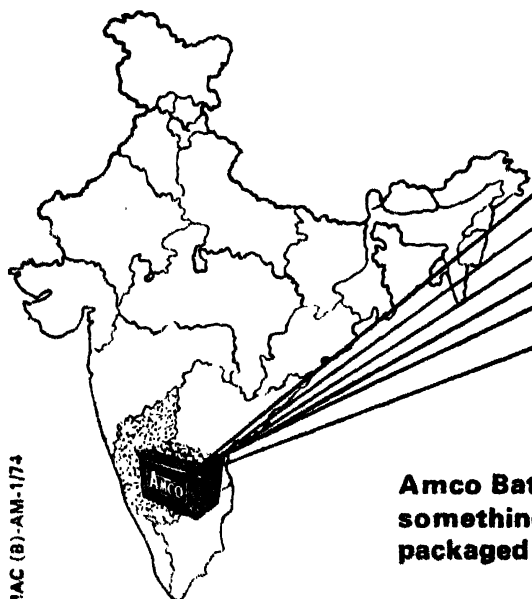
Cooperation in oil industry occupies a special place in Indo-Soviet economic relations. It began from the very inception of India's quest for oil, when the Soviet Union sent the first oil delegation under Prof. Kalinin to make a report on India's oil prospects.

The Soviet Union has rendered technical assistance

to India's oil industry by delivering prospecting, boring and other oil equipments, by sending oil specialists, by doing research, designing and prospecting and by training Indian specialists.

The Soviet Union has helped to set up two oil refineries of three million tonnes capacity each, the Barauni and Koyali refineries, and is now providing assistance to set up India's biggest refinery at Mathura of six million tonnes capacity. Thus out of the eight refineries in the public sector, already built or being built, three major refineries have received Soviet assistance. The construction and operation of the Koyali and Barauni refineries created the nucleus of the public sector refining industry and helped to train up the initial cadre of Indian specialists in refining. The Soviet Union has offered recently technical assistance in energy conserva-

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tion, augmentation of capacity, improvement in product patterns, and improvement in the service factor of the refineries.

The Soviet Union has also provided assistance to set up an oil institute at Baroda.

Since oil and gas were struck in Cambay in 1958 more than 160 structures and 30 oil and gas deposits have been found in India. In May 1960 the first well in Ankleshwar yielded oil. The amount of drilling done in prospective areas has topped the two million metre mark during the years of cooperation. Per metre drilling rate is the cheapest in India. The majority of the deposits discovered have been put into operation and are being exploited on an up-to-date technical level which ensures high efficiency. By the beginning of 1974 annual oil extraction at the enterprises belonging to the Oil and Natural Gas Commission reached 4.1 million tonnes. Since then the annual rate of extraction has been stepped up. Including the joint sector, in 1974 the production of crude was of the order of 7-8 million tonnes and the two sectors have discovered a reserve of 175 million tonnes so far.

#### Joint reports

In 1970-71 a group of Soviet and Indian specialists prepared a techno-economic report on the complex development of the Indian oil industry for the period 1971-75. This has been approved by the government of India and is being implemented at present.

India is rich in oil and natural gas, with a prospective area of some 1,600,000 square kilometres. The increase in the survey work of the most prospective Assam-Arakan and Tripura sedimentary basins is expected to raise the level of oil production substantially. That is why under the new agreement with the USSR intensive exploration work will be undertaken. Already, good oil deposits have been discovered

in Galaki (Assam) and Tripura. According to the ONGC, crude production for the whole country is expected to reach the level of 15 million tonnes by 1978-79. Of course, this will be short of self-sufficiency and hope is now pinned on Bombay High where the first exploration was carried out by Soviet specialists.

The Soviet Union has recently agreed to assist India with special drilling rigs and equipments for raising the rate of exploration and extraction.

#### On the oil map

The development of India's oil industry largely through Soviet assistance, has put India on the oil map of the world. Today India is offering know-how in oil technology to foreign industry. Soviet assistance in the design and production of these equipments ensures their rapid development.

The rapid development of non-ferrous metals (copper, aluminium and zinc) is crucial to the further development of Indian industry. However, this branch of industrial development has remained comparatively backward and India spends considerable foreign exchange on importing non-ferrous metals. Happily, India is well placed in the case of bauxite, the main raw material for aluminium with a share of 10 per cent of world resources.

The decision to expand the aluminium industry in the public sector was taken in the sixties. Of the two aluminium plants which the Bharat Aluminium Company (Balco), the public sector undertaking, is setting up in the country, one at Korba and the other at Ratnagiri, the former is to serve as a basic unit of the non-ferrous metallurgical industry.

The Korba aluminium plant, assisted by the USSR and Hungary, will not only train a cadre of specialists for the aluminium industry but also carry out research and development in this field. A training centre is being set up at Korba to train 100 technicians per

year with the assistance of Soviet specialists.

The first complex of the plant, with the Hungarian assistance, produces 200,000 tonnes alumina per year, and the second complex (the smelter and fabrication units) coming up with Soviet assistance, will produce 100,000 tonnes of aluminium products per year. The smelter unit is expected to be completed in stages of 25,000 tonnes (in four stages) before the end of 1975. By 1976 Korba is expected to go into full production. Production has already started at Korba.

The Soviet Union has also offered assistance to set up a 500,000 tonne alumina plant in Madhya Pradesh. The entire production is expected to be sold to the Soviet Union. This is one of the "production-cooperation" projects, envisaged in the 15-year economic agreement between the two countries signed during the visit of L.I.

Breznev, to this country.

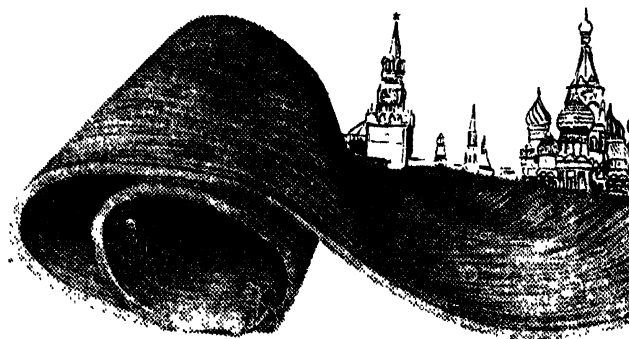
The Soviet Union is also helping India to develop one of India's largest copper deposits in Malanjkhand (Madhya Pradesh) under an agreement signed in October 1973. The deposit was discovered in 1968 and was noted for its high copper content. The reserves are estimated at 850,000 tonnes of copper.

The Malanjkhand beneficiation plant will be the most advanced enterprise in this field in India designed according to the most modern technology. The plant is expected to produce 30,000 tonnes of copper a year, which will go a long way in meeting India's growing demand for copper.

The Surgical Instruments Plants, Madras; the Synthetic Drugs Plant, Hyderabad; the Antibiotics Plant, Rishikesh, all built with Soviet assistance, play today a major role in the drug industry of the country. The Surgical Instruments Plant,

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with an annual production capacity of 2.5 million pieces, covering a wide range of instruments in the fields of general gynaecological, ophthalmic, ENT, dental and neuro-surgery, is able to meet today the country's demand for most of the sophisticated medical instruments. The Synthetic Drugs Plant, designed to produce over 850 tonnes of drugs and vitamins, is already playing a major role in India's economy. Eighteen types of drugs turned out by the plant are among the most important used in modern medicines. Apart from producing such vital drugs to combat tuberculosis, epilepsy and liver diseases, the plant produces folic acid important in the treatment of radiation and post cancer complications.

The Antibiotics Plant naturally plays a crucial role in the fight against deadly diseases. It is designed to produce 290 tonnes of antibiotics yearly such as penicillin, streptomycin, dihydro-streptomycin, chlor-tetracycline, oxytetracycline, tetracycline and nystatin. It

has already reached the rated capacity.

The plant has made a major contribution by putting in the market low-priced life-saving medicines. A case in point is the fall in the price of tetra- and oxytetracycline capsules which used to sell at exorbitant prices. Rishikesh unit keeps prices steady in spite of the steep rise in raw material prices.

The Soviet Union has provided the plant unit with the available know-how free of charge and has a continuing agreement to pass on all the latest innovations in technology. Under this programme, during 1973-74, the USSR deputed a specialist to the plant to pass on the latest strains of tetracycline, oxytetracycline and others, and they have been successfully introduced.

During the fifth Plan period, it is proposed to expand both the antibiotics plant and the drugs plant with Soviet assistance costing over Rs 40 crores. The capacity of the antibiotics plant will be raised

by another 171 tonnes, while that of the Hyderabad plant will be raised to 2,000 tonnes from the present level of 1,400 tonnes. This would mean adding two or three units. With these expansions, the Indian Drugs and Pharmaceuticals Ltd. will have a share of 50 per cent in the medical industry of India.

Of the many giant industrial projects which have come up with Soviet assistance pride of place should go to the Heavy Machine - Building Plant (HMBP) at Ranchi, the "plant of plants", producing heavy machinery and equipment for a variety of industries, including the strategic industries. It may be recalled that India had no plant to manufacture heavy machinery and equipment in 1947. The plant originally designed to manufacture machinery and equipments to equip a million tonne steel plant per year, has diversified its production since then. With an annual capacity to manufacture 80,000 tonnes of heavy equipments and machinery, it produces today blast furnace

equipment, coke-oven equipment, all types of rolling stock, electrical overhead travelling cranes of different capacities, crushing and grinding machinery, and excavators. In fact, it has a surplus capacity at present, and India and the USSR are examining the possibilities of utilising this surplus capacity to aid development of third countries. Since 1966, it has been the major supplier of machinery and equipment to Bhilai and Bokaro steel plants, electrolyzers and other equipments for the aluminium plant at Korba, and will equip the medium steel plants proposed to be set up soon. It is also supplying equipments to the Durgapur Mining and Allied Machinery Corporation, the Heavy Electricals Ltd, TISCO, and others, as also drilling rigs to the ONGC. It will also supply equipments to the major underground railway projects in the country.

Courtesy: Information Department of the USSR Embassy in India.

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# TRADE WINDS

## Indo-Pak Trade Pact

INDIA AND Pakistan signed in Islamabad on January 23 a trade agreement and a memorandum of understanding incorporating, among other things, banking arrangements between the two countries. This was in pursuance of the Simla agreement of July 2, 1972, and the trade protocol of November 30, 1974, signed by the two countries. The agreement comes into force with immediate effect. It will be valid for one year and is extendable by a further period of two years.

In pursuance of the memorandum of understanding between the two governments, representatives of the State Bank of India and the National Bank of Pakistan have signed the working arrangements for remittance facilities between the two countries in regard to trade. The Indian delegation included representatives of the ministries of Commerce, External Affairs and Finance, the State Bank of India and the State Trading Corporation. A meeting between the Indian trade delegation and various Pakistani organizations concerned with foreign trade at Karachi on January 24 considered visits at the level of public sector corporations to facilitate closer examination of mutual business interests and commercial contracting. The Indian delegation also discussed with Pakistani officials the possibility of trade in rice and cotton.

## Food Pact with USA

India is likely to get 300,000 tonnes to 500,000 tonnes of foodgrains under PL 480 in the next US fiscal year start-

ing in July next. Meanwhile, the hurdles in the way of concluding an agreement for the supply of a similar quantity in the current fiscal year have been cleared. According to Mr C. Subramaniam, union Finance minister, an agreement is expected to be signed within the next few weeks. Mr Subramaniam, who returned from the USA on January 22, after discussions with the US authorities and the World Bank and IMF officials, said the US government had now agreed not to insist on certain restrictions in regard to the foodgrain deal. Initially, the USA wanted to place some restrictions on the utilisation of sale proceeds of the foodgrains and also ban export of foodgrains by India.

Mr Subramaniam said India regarded such restrictions as "unnecessary." It was explained that India had an obligation to return in kind the wheat lent to it by the Soviet Union. It was argued that the USA should not insist on such restrictions when it had not placed constraints on other forms of assistance. The payment for the purchases, in dollars, will be on soft terms; two per cent interest in the first few years and 2.5 to 3 per cent in subsequent years.

## Indo-US Trade Panel

India and the United States have agreed to establish a joint business council to promote direct contacts between their business sectors, including the public sector enterprises in India, in industrial and commercial projects of high priority. The decision was taken by the economic and commercial sub-commission of the Indo-US Joint Commission which concluded its

two-day meeting in Washington on January 21. This is the first time that the United States has agreed to promote trade and joint enterprises and other forms of economic co-operation with a non-communist country.

So far, except with communist countries, it had left trade in the hands of the private sector. On previous occasions, the US government had taken the stand that it had little to do with trade interests and India would have to approach the US private sector on its own. Both the governments, in cooperation with the proposed joint business council, will actively cooperate to improve the climate for American investment in India. The two sides agreed to hold talks within the next few weeks on a possible double taxation treaty. The progress made by the sub-commission underscores a new stage in Indo-US economic relations based on a wide range of activities in trade, agricultural inputs, taxation, investment and industry. Indian officials will provide a list of non-traditional products with potential for increased exports to the United States.

## Financial Writers' Meet

The second international seminar of economic journalists which concluded its deliberations on January 29, in New Delhi, called for a "global frame" to solve the problems arising out of inflation and the high cost of energy. A statement, adopted by the 100-odd economic journalists from 24 countries attending the seminar, said that the crisis would deepen if each country looked to only its own interests.

The statement said that the ultimate solution lay in building up a "mutually reinforcing pattern of co-operation" based on the "optimum utilisation of the monetary, scientific and technological resources of the industrial nations, a part of the monetary surpluses and natural resources of OPEC countries, and of the raw materials and human skills from other

developing countries." This triangular approach would have to be supported by an improvement in the terms of trade of the developing countries and compensatory transfers of capital to help them meet the immediate burdens.

During its six-day deliberations, the seminar was addressed by a number of prominent persons, including Mr Claude Cheysson of the European Economic Community, Mr Ahmed Kourouss, Iran's deputy minister of Economy, Dr K.B. Lall, India's envoy for economic affairs in Europe, central ministers and heads of leading Indian institutions and business houses.

## UNDP Aid for Power Projects

The United Nations Development Programme is assisting this country in its two power projects, which are designed not only to augment the existing capacity by possible use of geothermal energy but also to increase the efficiency of the national grid. It is expected that, by 1979, the required plant capacity will be about 40,000 MW, double than the present capacity. Although the central and state governments are designing and constructing thermal, hydro-electric and nuclear plants to cope with the growing demand for power, geothermal power as a source of electrical power is sought to be pressed into service to decentralise power distribution.

So far, 250 thermal spring localities have been identified by the Geological Survey of India, with Uttar Pradesh and Maharashtra having sizable geothermal power resources. As the cost of power generation with conventional thermal plants in these states is high involving long distances for transportation of coal, it is necessary to determine the economic viability of geothermal power.

## Fall in World Rice Production

World rice production in 1974—mostly for consump-

tion in 1975—declined by three million tonnes to 319 million tonnes, the Food and Agriculture according to Organisation (FAO). The main cause was unfavourable weather, in south Asia, the major rice producing region. The entire shortfall was concentrated in importing countries while exporting countries increased their production. The FAO inter-governmental group on rice had a week-long meeting with participation of rice experts from 40 countries. The group concluded that with world export availabilities larger than in 1974, and part of the import demand diverted to less expensive cereals, such as wheat, the export supply and import demand situation for rice in 1975 seemed to be more in balance than in the previous two years. However, world reserve stocks of rice were unlikely to be replenished to any appreciable extent this year.

### Scientific Cooperation with Soviet Union

The Soviet Union and India have worked out a long-term programme of scientific cooperation for 1975-80 which will open up a vast vista of joint research. Mr L. Yefremov, First Deputy Chairman of the State Committee on Science and Technology of the Soviet Union recently said, the programme "specifies the field of science and technology where cooperation can produce practical benefit for both India and the Soviet Union." The programme envisages cooperation in producing chemical products, liquid fuel and synthetic gas from coal. In the field of light industry, Mr Yefremov said, the two countries would cooperate in the production, mixing, processing and dyeing of synthetic and natural fibres and fabrics as well as in the utilisation of waste matters and the processing of hides and skins. Regarding cooperation in non-conventional energy, Mr Yefremov indicated cooperation in the use of restorable sources of energy, such as solar and geothermal energy.

Stressing the importance of

agriculture and hydro-power development, he pointed out, the cooperation in this field envisaged transfer of water from one river basin to another. Soviet and Indian engineers would pool their efforts in designing industrial and other projects in tropical and highly seismic conditions as also in the development and application of new building materials.

### World Bank Raises Lending Rate

The World Bank announced on January 23 that it had increased the rate of interest charged on loans to its borrowers from 8 per cent to 8.5 per cent per annum. The increase affects loans committed by the bank on or after February 1.

### India - Hungary Trade Protocol

India and Hungary signed a trade protocol recently at Budapest providing for an overall turnover Rs 81.5 crores. Indian exports under the protocol will be around Rs 40 crores and Hungarian exports around Rs 41.5 crores. Apart from the traditional items such as groundnut oil-cakes, paper, coffee etc, the protocol provides for export of several non-traditional goods from India such as mild steel tubes and fittings, tinned-fruit juices, confectionery, chemicals and engineering products such as air compressors, dry cell batteries and hand tools. Imports from Hungary will include steel and steel products, chemicals, drugs and medicines, high pressure gas cylinders, machine tools and conveyor belts.

### Indo-Polish Collaboration

India and Poland signed on January 24 a protocol giving a new dimension to the economic cooperation involving sophisticated technology. Under the protocol a programme is being drawn up by the two sides for supplies of equipment and drawings by India for the expansion of the coke oven units in Polish steel plants. The protocol, outlines cooperation

between the two countries in mining industry and machinery, fisheries, agriculture, shipbuilding, shipping, electronics, heavy and machine building industry. Poland will be importing more Indian machinery and equipment, and has agreed to help India set up a trawler construction yard, and supply 300,000 dwt of ships, including one bulk carrier and two product carriers. Poland also agreed to consider possibilities of placing orders for hulls on Indian shipyards according to Polish specifications, castings and forgings, EOT cranes, flat bogies and cable machinery. The two sides agreed to consider transfer of technology and trade in electronics. Poland is also to help India in mining, coal industry, metallurgy, organic intermediates, pesticides, molecular biology and irrigation.

### Rs 50-crore Annual Plan for Delhi

The Plan outlay for the union territory of Delhi for 1975-76 has been fixed at Rs 50.50 crores against the current year's outlay of Rs 45 crores at a meeting between the Chief Executive Councillor, Mr Radha Raman, and the Planning Commission. The central assistance remains unchanged at Rs 41 crores. Delhi had been allowed to increase its internal resources from Rs 4 crores in the current year to Rs 10.50 crores in the next year. The commission had approved the Plan outlay of Rs 49 crores for the next year and had agreed that the savings of Rs 1.50 crores to Rs 2 crores from the current year should be carried over to next year. The Delhi Administration plans to give priority to the generation of power, irrigation facilities, small industries and improvement of slum areas.

### Textile Exports Go Up

Textile exports have hit a record figure of Rs 330.39 crores, in the calendar year 1974 against Rs 226.36 crores in 1973. According to figures released by the Cotton Textile

Export Promotion Council, the volume of piecegoods exported has actually gone down from 631 million sq metres in 1973 to 481 million sq. metres in 1974, but because of price inflation earnings from piecegoods have shot up from Rs 137.58 crores to Rs 164.37 crores. In the ready-made garments there has been a spectacular increase from Rs 47.64 crores to Rs 88.29 crores. Hosiery exports have also jumped from Rs 1.75 crores to Rs 4.97 crores, while other items have fetched Rs 51.96 crores against Rs 26.32 crores. Yarn exports contributed Rs 20.80 crores from 12.6 million kg against Rs 13.07 crores from 11.9 million kg in 1973.

### HMBP's Record Production

The Heavy Machine Building Plant, a unit of the Heavy Engineering Corporation, Ranchi, touched a new high in the production of mechanical equipment. Its cumulative production of equipment and structurals during this financial year (April to December, 1974) is worth Rs 359 million against Rs 240 million over the corresponding period last year. A notable feature of the current production is that the plant is clearing up its backlog of pending orders.

The revamping of the 28" bar mill at the metal and steel factory, Ishapur, doubling its capacity from 25,000 tonnes to 50,000 tonnes of assorted sizes of alloy steel billets has been executed. The plant has completed supply of all equipment for the slitting and trimming line for Indian Aluminium Company for their plant at Talaja near Bombay. Both the jobs were taken up as turn-key projects and all equipment was designed by the plant's engineers. It has also executed the order for sophisticated equipment for the cold reversing strip mill required by Advance Mills at Ahmedabad. The mill is designed to turn out 1 mm thick (minimum) stainless steel strips to be used mostly in



food processing units and in making utensils.

Another achievement is the completion of the assembly of the magnet for cyclotron for the Bhabha Atomic Research Centre, Calcutta. The magnet frame weighs 262 tonnes and comprises yoke slabs, pole pieces and Dee tank cover assembly.

HMBP will be completing supplies of equipment for Bokaro's first stage of 1.7 million tonnes by next month. HMBP has supplied equipment for about 180 electrolytic reduction cells required by Bharat Aluminium at Korba. Each cell weighs 67 tonnes. In all HMBP is to supply 27,000 tonnes of equipment valued at Rs 21 crores.

### State Units to Get Public Deposits

Public sector units will be allowed to invite fixed deposits from the public. A beginning is being made with the Bharat Heavy Electricals and Scooters India Ltd. A large number of public sector undertakings are running short of working funds. Financial institutions and banks cannot help them because of the tight credit policy. In any case, bank credit is much costlier than public deposits. It has therefore, been decided that the public sector should adopt the same remedy that the private sector has resorted to, namely, inviting public deposits at attractive interest rates to reinforce working funds. Some stringent checks may soon be imposed to discourage indiscriminate resort to public deposits.

### \$ 100 Million EEC Aid

The nine governments of the European Economic Community have decided to pay out another \$ 100 million to help the countries worst hit by the increase in oil prices. This is in addition to \$ 150 million paid last year. The contributions are part of a \$ 3,000-million fund first proposed by the EEC Commissioner for Development Aid, Mr Claude Cheysson. Of the \$ 100 million agreed on now only \$ 33 million will be paid

directly into the UN fund. The rest will be distributed by the nine-nation Community.

### Non-banking Firms' Deposits

The Reserve Bank of India has reduced the quantum of deposits the non-banking financial and non-financial companies could take from the public in the form of unsecured loan from 25 per cent to 15 per cent of their paid-up capital and free reserves as diminished by the balance of accumulated loss. The reduction in ceiling applies to deposits in the form of unsecured loans guaranteed by directors of the companies and deposits raised from shareholders. The bank has directed that such companies having deposits of these categories in excess of 15 per cent of their paid-up capital and free reserves would wipe out the excess by December 31, 1975.

Companies conducting prize chit/lucky draws/savings schemes, etc. which are governed by another set of directions issued by the bank and which have been allowed time up to the end of September 1976 to wipe out any excess of the guaranteed loans/shareholders' deposits over the existing ceilings of 25 per cent are now required to bring down their outstandings in respect of the unsecured loans within the reduced ceiling of 15 per cent by December 31, 1976.

### £ 20 m UK Loan

Britain has offered India a further interest-free loan of £20 million in addition to £75 million pledged at the Aid India Consortium meeting in Paris in June last.

The total of £95 million for the current financial year is the largest amount ever provided by the UK to India.

The new loan is part of the British contribution to the United Nations emergency programme to assist developing countries most seriously affected by the rise in the prices of oil and other commodities.

It will be used for the purchase of materials and components in Britain required to

maintain the level of India's industrial and agricultural production. India proposes to use part of the loan to buy fertiliser which it badly needs.

### Indo-Zambia Pact

India and Zambia have called upon the developing countries to come closer in economic, technological and scientific fields to meet the "grave difficulties" faced by them.

In a joint communique issued at the conclusion of President Kenneth Kaunda's four-day state visit to India, the two countries urged the developed nations to regulate their relationship with the developing countries on a basis "which would be just and equitable."

Reviewing the economic and technical relations between the two countries, the two leaders agreed to increase and diversify them in the economic, commercial, technical, scientific, technological and cultural fields. For this purpose they signed three agreements and a protocol emphasising the intention of both the countries to strengthen and expand their relations further.

### OPEC Oil Price Freeze

The world's major oil exporting countries are preparing to offer a five-year freeze on oil prices in real terms as their contribution to a constructive dialogue with consumer countries. The Algerian Oil minister, Mr Belaid Abdessalem, proposed to Oil and Finance ministers of the Organisation of Petroleum Exporting Countries (OPEC) that this should form the main plank of OPEC's approach to its customers.

This proposal, which won widespread support at the OPEC conference at Algiers on January 27, will form the basis of an OPEC working paper setting out their position towards the consuming countries which OPEC heads of state will consider at a summit conference in Algiers in about one month.

Iran's delegate to the Conference said Iran would agree

to stabilising the oil price at current levels, with rises only to counter the effects of inflation.

### Fall in Petrol Consumption

Petrol consumption by Indian motorists came down by 35 per cent in the face of the present world oil crisis, according to Mr S. B. Budhiraja managing director of the Oil Corporation of India. Mr Budhiraja, said the off-take of heavy duty furnace oil had also dropped by about 10 per cent as a result of the corporation's sustained campaign to persuade the oil-fired industrial boilers to switch over to coal. Mr Budhiraja said as part of its campaign the corporation would shortly open three more fuel efficiency service cells at Madras, in the Ahmedabad-Baroda region and in the north. There are already three such cells at Bombay, Calcutta and Coimbatore.

### FIEO Team to S-E Asia

The Federation of Indian Export Organisations (FIEO) is exploring the possibility of rendering consultancy services to south-east Asia. In pursuance of this objective, a five-member delegation, sponsored by the federation, left on January 27 on a tour of Singapore, Malaysia, Indonesia, the Philippines and Thailand. The team headed by Mr M.M. Suri Managing Director, M. M. Suri, and Associates, will spend about 25 days in these countries. A large number of projects in the south-east Asian region are being financed by the Asian Development Bank (ADB) and Indian consultants have a very useful role to play in such projects.

According to FIEO, Malaysia offers good potential for industrial and infrastructure projects such as machine tools; molasses-based industries, calcium carbide, rubber-based industries, hand tools, automobile spares, railways equipment etc. There is also scope for consultancy services exports to Indonesia in the field of mining, railways,



electricity, road and bridge building.

During its visit, the team will have discussions with various procurement agencies, government as well as private, about their programmes and the consequent requirements of consultancy services. Specific fields will be identified and sources of availability of know-how indicated to the parties concerned. The team will also explore the possibility of collaborating with consultants from developed countries already operating in the region and associate with them for projects aided by international agencies. Since most countries in the south-east Asian region are still in the process of development, Indian consultancy, which is tailor-made to suit the needs of co-developing nations, will be in good demand in the region.

### IA's Rs 100-Crore Plan

Synchronising with the nation's fifth Plan Indian Airlines is likely to have a separate five-year plan of Rs 100 crores. Indian Airlines has already received approval in principle from the union government to go ahead with the plan. This would be a self-financing project, resources for which would be generated internally, IA would seek central loans to meet any additional fund requirements. The IA plan, outside the purview of the Planning Commission, would be utilised mainly for the expansion programme of the airline including acquisition of wide-bodied jets such as Lockheed Tristars, DC-10-110 and Airbus 330 B2. Indian Airlines' jet fleet capacity will need expansion to cater for the growing passenger traffic and to fill up the gaps created by the phasing out of current uneconomic aircraft like Caravelles and shedding of chartered Air India 707 services. Keeping in view the technological advances in aircraft design Indian Airlines is presently evaluating different types of aircraft to obtain a fleet mix. A final decision on the acquisition of wide-bodied

aircraft is likely to be taken shortly.

### IFC Programme for Less Developed Areas

The Industrial Finance Corporation of India (IFC) has sponsored a new programme to promote industrial projects in less developed areas of the country. The programme envisages training of technologists and entrepreneurs and providing them guidance from leading specialists in both private and public sectors. Finance for viable projects in less developed regions is already being provided by the corporation at concessional rates of interest. The first programme in the series is being held in Puri, Orissa, from February 1 to 6, 1975. This will be followed by similar programmes in other industrially backward regions and in less developed areas of developed states. The Puri programme will have focus on problems faced in launching industrial ventures in Orissa and in bringing them on a sound footing. The programme is being organised by the Management Development Institute, a body sponsored by IFC.

The corporation has given to the University of Delhi Rs 800,000 to promote advanced research in the field of industrial management.

### Industrial Growth Rate Up

The overall growth rate for the industrial sector during the first three quarters of the current fiscal year is estimated at around four per cent against the target of 7.5 per cent for the full year. The improvement in production could be traced mainly to the efforts made by the different economic ministries to remove bottlenecks in production. Power position continued to be critical while some of the industrial raw materials remained scarce. But as a result of monitoring by the ministry of Industry, constraints in the way of higher production could be removed to a consi-

derable extent. Production continued to dip in a few core sectors, especially in chemical fertilisers where production during the nine-month period was low compared to the corresponding period of 1973, though there were signs of revival in December.

Public sector undertakings however registered an overall growth rate of 12.7 per cent during the first three-quarters of the current fiscal year over the corresponding period last year. In terms of value, Hindustan Photo Films Limited of Ottacamund, once considered a sick plant, registered outstanding performance of 109.7 per cent increase in output during the period, followed by the Ma-

chine Tools Corporation of India which showed an increase of 85.4 per cent in output. The Hindustan Machine Tools, which has units in different parts of the country, registered an increase of 64.9 per cent in output during the three quarters period while Mining and Allied Machinery Corporation Durgapur's showed increase of 38.2 per cent. Other notable public sector units registering substantial increase in their output during the nine-month period are: Bharat Heavy Plates and Vessels, Visakhapatnam (34.7 per cent), Bharat Heavy Electricals Limited (33.1 per cent), Garden Reach Workshops (29.6 per cent) and Heavy Engineering Corporation (27.3 per cent).

## Shriram Bearings Limited

General notice is hereby given to the members of the public in terms of Rule 4-A of the Monopolies and Restrictive Trade Practices Rules, 1970 that the Company intends to make an application to the Central Government in the Department of Company Affairs, under Section 21 of the Monopolies and Restrictive Trade Practices Act, 1969 about its proposal to take up the manufacture of 60 nos. of Ball Making Machines (Ball Flashing Machines, Ball Grinding Machines, Ball Lapping Machines and Ball Tumbling Machines) per annum at its existing factory at Ranchi, Bihar.

Any person interested in the matter may, if he so desires, intimate to the Central Government in the Department of Company Affairs, within fourteen days from the date of publication of this notice, his views with regard to the above proposal and also the nature of his interest therein.

**R. K. GOEL**  
Secretary

Registered Office,  
Post Box No. 1232,  
Bara Hindu Rao,  
Delhi-110006.

# COMPANY AFFAIRS

## Decline Persists

EQUITIES CONTINUED to move down further on the stock exchange. The end of the dock strike and the report that industrial output in certain sectors had increased further during December last failed to cheer marketmen. The stock exchange fraternity viewed with great concern the continued stalemate in the jute workers strike and the increase in power cuts in Maharashtra and Tamil Nadu. Lack of institutional support and fears of heavy dose of taxation in the forthcoming central budget to cover the mounting deficit further dampened market sentiment. As a result business turnover remained poor. Price movements were narrow and the undertone easy. In the prevailing mood it looks as though the investment climate is not likely to improve unless some positive measures are taken by the government to boost the morale of the market.

## Albright Morarji

Although sales of Albright Morarji and Pandit have gone up appreciably to Rs 5.78 crores from Rs 4.79 crores, the gross profit was marginally lower at Rs 1.18 crores during the year ended October 31, 1974 as compared to Rs 1.22 crores in the previous year. Considering the loss of production for the first two months because of the labour trouble and escalation in cost, this is indeed not a bad performance. The equity dividend, however, had to be restricted to 6.5 per cent because of the dividend ordinance. In 1972-73, the company paid an equity dividend of 15 per cent. Out of the gross profit, the directors have appropriated a sum of Rs 26.22 lakhs to depreciation reserve as against Rs

25.52 lakhs in 1972-73 while the allocation to development rebate reserve was reduced by Rs 10,000 to Rs 16,000. In 1972-73, a sum of Rs 64.60 lakhs was earmarked for taxation but during the year under review no provision has been made for taxation which is estimated at Rs 64.30 lakhs. The erection and installation of the plant and machinery for doubling the annual production capacity for sodium triphosphateto 25,000 tonnes was almost completed at the end of the year. The expanded plant is working quite satisfactorily despite such constraints as power, furnace oil and kerosene oil.

## Garware Nylons

Despite acute shortage of caprolactum, particularly in the beginning of the year and severe power cuts, the turnover of Garware Nylons during the nine-month period ended December 1974, was higher at Rs 9.94 crores as compared to Rs 8.71 crores in the corresponding period of the previous year. Sales during 1974-75 are expected to be around Rs 14 crores, Rs 1 crore more than in 1973-74. The profitability of the company so far has been quite satisfactory despite the steep rise in cost of raw materials. The company has made a considerable headway in the implementation of its expansion programme for setting up a project for the manufacture of polyester filament yarn. It has also made good progress with regard to its de-polymerisation project. This plant is expected to be commissioned during the second quarter of this year.

The company is also setting up a joint venture project in Malaysia for manufacture of nylon yarn, twine, cords of all

varieties in the first stage, polyester and synthetic yarns in the second stage and the manufacture of raw materials from which such yarn can be manufactured in the third stage. A new company styled Garware Fabrics is to be incorporated as a 100 per cent subsidiary of the company. This project will serve as a pilot plant for the training of the Malaysian personnel as also to undertake more research and development work.

## Madras Rubber

The directors of Madras Rubber Factory have proposed to issue bonus shares in the ratio of one share for every two shares held by capitalising a sum of Rs 121.87 lakhs out of its reserves. The directors have also proposed to maintain the equity dividend at 12 per cent. Meanwhile the company has reported impressive improvements in its working results during the year ended September 30, 1974. Sales during the year jumped to Rs 59.35 crores from Rs 40.30 crores while gross profit shot up to Rs 4.47 crores from Rs 3.05 crores in 1972-73. Out of this gross profit, the directors have set aside a sum of Rs 123.82 lakhs to depreciation reserve as against Rs 120.10 lakhs in 1972-73 while an amount of Rs 51 lakhs was transferred to development rebate reserve as compared to Rs 57 lakhs in the earlier year. No separate provision has been made for taxation in 1973-74 but the tax liability estimated at Rs 120 lakhs will be paid out of the general reserve. It is expected that there will be a substantial rise in output with a better utilisation of capacity of the Goa unit. The licenced capacity of four lakh tyres and tubes at Goa is likely to be reached during the current year

with a progressive rise in production.

The company has received a letter of intent for doubling the capacity of this plant to eight lakh tyres and tubes per annum. The company has also received the governments' approval for transfer to Arkonam, a declared backward area, an annual capacity of 250,000 tyres and tubes from the Madras plant which has a licenced capacity of one million tyres and tubes per annum. But in view of the severe power cut in Tamil Nadu no effective steps have been taken to transfer the capacity. However, production of tyres and tubes at the Madras plant is being maintained at the maximum possible level within the prevailing power constraints in Tamil Nadu.

## Central Bank

The deposits of the Central Bank of India has crossed Rs 1,000-crore mark and have touched the level of Rs 1,025 crores at the end of 1974. Deposits increased during the year by as much as Rs 91 crores or 9.7 per cent as against a rise of 13.4 per cent recorded by the banking system as a whole in 1974. But, if the yardstick of rise in the growth of average deposits throughout 1974 was applied, which would be more truly reflective of the funds at the disposal of the bank, the growth rate of average deposits worked out at 15.2 per cent for 1974 for the bank as against 16.7 per cent for all the scheduled commercial banks in the country. Loans and advances during the year rose by Rs 54 crores to 678 crores. The growth rate of advances in this case also was lower at 8.7 per cent as compared to 12.1 per cent for the entire banking system. However, the average advances of the Central Bank, worked out at 23.3 per cent as against 20.3 per cent recorded by the banking system as a whole.

Including exports, the improvement in the share of priority sector advances in total credit has been from 19.3 per cent to 28.7 per cent

from the date of nationalisation until the end of December 1974, making a total of Rs 194.48 crores. While exports accounted for the increase of Rs 23.27 crores, the increase was more marked at Rs 57.47 crores in agricultural advances. The share of Central Bank at Rs 76.58 crores, in the total public sector banks' agricultural advances was over 12.5 per cent as at the end of 1974. Nearly two lakh farmers have been directly benefited by the various schemes under which the Bank has been increasing its commitment to agriculture. During 1974 Central Bank opened 54 branches carrying the total number of offices as at the end of last year to 1219.

A look into the representation of branches as at the date of nationalisation and as on December 31, 1974, reflects not only the maturing of the Bank as an all-India Institution, but also indicates its predominant bias in favour of opening offices in rural and semi-urban areas in consonance with the national policy. Thus, as against the total number of branches in India at 570 on July 19, 1969, the total number of branches at the end of 1974 was 1219 which showed an increase of 649 branches, out of which 516 opened at rural & semi-urban centres. The Bank has on hand 82 licences for opening new branches. In the rolling plan for the three year period submitted to Reserve Bank of India for approval, application have been made for 568 new branches.

The bank, it seems, has achieved the highest-ever profit in 1974. According to Mr D.V. Taneja, the Banks Chairman, the bank's profit for 1974 will be "many times more" than for 1973. The final figure of profit after various allocations, is expected to be available only next month. In 1973, the bank's gross profit was Rs 2.95 crores and after making appropriations, a sum of Rs 16 lakhs was transferred to the central government.

#### **Bayer (India)**

Bayer (India) has obtained the consent of the Controller

of Capital Issues for a further issue of 32,250 equity shares of Rs 100 each at a premium of Rs 100 i.e. at a price of Rs 200 per share. The Board has decided that out of these shares, the Indian shareholders will be offered rights in the proportion of one share for every six shares held and the balance to the company's

employees in such a manner that none of them gets more than 20 shares. The proposal, however, is subject to the approval of the shareholders.

#### **Consolidated Coffee**

In his annual address to the shareholders of Consolidated Coffee Ltd, the Chairman Mr M.A. Sreenivasan has high-

lighted the tremendous progress made by the company during the five year period ended 1973-74. It is gratifying to note that the gross income, profit before tax and profit after tax have all doubled during this period. Moreover the company's investments in shares and securities have more than trebled. Reserves have record-



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ed an increase of Rs 35 lakhs, after the drawing of Rs 71.5 lakhs during 1973-74 for the issue of bonus shares in the ratio of two shares for every five shares held. Although the average crop harvested in the company's estates has tended to be stagnant over the years, due mainly to extensive new clearings and replantings that have been done in the last five years at a total cost of Rs 26.50 lakhs, the crops harvested are expected, as a result of these operations, to show substantial increases in future years.

There is too much political obsession with agricultural land with the result that agricultural land has become the platform, if not the playground of politics, with each party vying and wishing to excel the other, in land reforms. This in spite of the fact that even Pandit Nehru declared years ago that there should be an end to land reforms. It is often said that land should be distributed among the landless. The wisdom of such a policy is questionable for it is common knowledge that even if all the arable land in the country is distributed among the landless there would hardly be an acre for each. Moreover such catchy slogans as, "land to the tiller" are often raised to please the masses and to catch more votes. But stripped of its populist trappings to say "land to the tiller" would appear no more respectable or rational than to say, "cloth to the weaver" or "curry to the cook." These empty slogans and absurd policies obviously can lead us nowhere. This exercise of distribution of land will naturally lead to capital starvation of agriculture on the one hand and mere subsistence farming on the other.

It is high time that we follow the footsteps of such countries as Australia and Canada where land is not politicalised and where agriculture is free and unhampered by irksome laws and levies and where sky is the only ceiling. So it is earnestly hoped that a time of emergency and crisis like the present, the political inhibi-

tions and prejudices will be cast aside and all out efforts will be made not only to attain high levels of productivity and earn foreign exchange but also to provide gainful employment and amenities to workers. The state of Karnataka is expected to give a bold lead in this direction.

### Victor Gaskets

Taking advantage of the prevailing shortage of piston rings, Victor Gaskets India Ltd, a prominent producer of gaskets, is launching a project for the manufacture of piston rings at Nasik. Initially, the plant will have an annual production capacity of 15 million units. The capacity will be doubled in the second phase of the project to be taken up after two years from the start of production. The company has made considerable progress in the implementation of the project. It hopes to complete the installation of plant and equipment by September-October and start production on a commercial scale in January 1976.

The company is expected to enter the capital market some time in September under its new name, Perfect Circle Victor Ltd, with a

fresh equity issue of Rs 1 crore. Dana Corporation, the company's US collaborators, who are one of the world leaders in automobile ancillaries, will take up shares worth Rs 30.40 lakhs. The Indian promoters will subscribe to equity shares worth Rs 21.44 lakhs. The remaining equity capital of Rs 48.16 lakhs will be offered to the public for subscription. A part of capital outlay to the tune of Rs 2.10 crores will be raised as institutional loans. Victor Gaskets has earned a pre-tax profit of Rs 30 lakhs on a turnover of Rs 2.60 crores during the year ended September 30, 1974. With the Nasik project generating additional business, its turnover is expected to jump to Rs 6 crores in 1977-78. The company hopes to declare a handsome dividend out of the profits earned in 1977-78.

### Regal Papers

Regal Papers has commenced production of mirror finished high gloss cast coated paper and board. This kind of paper, it is claimed, is being produced for the first time in Asia outside Japan. It is interesting to note that this venture has been promoted entirely with

indigenous technical know-how and raw materials without seeking any foreign collaboration whatsoever. Its plant thus represents a major breakthrough in high grade coated paper and board in the country which will not only serve as a substitute for imports but also pave a way for higher exports. It is estimated that the company can earn foreign exchange to the tune of Rs 50 lakhs annually.

The company has an authorised capital of Rs 1 crore. It went public in early 1973 by raising capital to the value of Rs 28 lakhs, comprising Rs 21 lakhs in equity and the balance of Rs 7 lakhs in 9.5 per cent redeemable cumulative preference shares. To supplement the capital further, it proposes to go in for a rights issue by the end of this month to the extent of Rs 7 lakhs consisting of Rs 5.25 lakhs in equity and Rs 1.75 lakhs in preference. The shares will be offered in the proportion of one for four to those whose names appear on the register of the company as on January 28.

### Unit Trust

The Trust Laws (Amendment) Ordinance, to further



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Business needs speed.**

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*Don't wait till the evening.*

*Catch the early clearance.*

**POSTS AND TELEGRAPHS**



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amend the Indian Trusts Act, and the Unit Trust of India Act, was promulgated on January 7, 1975. Prior to the promulgation of this ordinance, income up to Rs 3,000 for units in the Unit Trust of India and other specified categories of investments was exempt from income-tax under Section 80L of the Income Tax Act, 1961. Also, investment up to Rs 1.5 lakh in units and other specified investments was exempt from wealth-tax. With the promulgation of the ordinance two further specific tax reliefs have been granted exclusively to unit-holders.

These reliefs, in respect of income-tax and wealth-tax, have been made applicable from the assessment year 1975-76. The assessment year relates to the income and wealth of the assessee of the previous year. The assessee will, therefore, get the benefits on tax assessment in respect of income from units which they have already received during the current year 1974-75, as also for their holdings of units during 1974-75 for the purposes of wealth tax. Income up to Rs 2,000 exclusively from investments in units of the UTI will be exempt from income-tax. This is over and above the limit of Rs 3,000/- already available under Section 80L of the Income-tax Act, 1961 for income from certain approved investments, including units. To illustrate this, at the rate of dividend paid by the UTI during 1972-74, viz 8.5 per cent, the total income on an investment in units of approximately Rs 24,000 will be fully exempt from income tax.

Because of the facilities of ready encashability of units at pre-determined prices, and the complete safety of funds invested in units, many investors including pensioners already hold units of over this amount, often in the Reinvestment Plan of the UTI. With the further tax exemption now given, many more may like to invest more of their savings in units since the earlier tax exemption of Rs 3,000 will continue to be

available to them. It is necessary to emphasise that the exemption for Rs 2,000 provided in the recent ordinance is applicable only for income from units and not for income derived from any other source. The ordinance also gives Wealth Tax exemption on investments in units up to Rs 25,000 in addition to the exemption upto Rs 1.50 lakhs already in force for specified categories of investments, including units. Here too the additional amount of Rs 25,000 can be claimed for exemption under Wealth Tax for investments in units alone, over and above whatever the assessee's holdings of units may be within the earlier ceiling of Rs 1.5 lakhs. As hitherto, the Trust will make no deduction of tax at source in the case of resident individuals while sending dividends to them. This is a facility that is particularly attractive to persons in lower income tax brackets.

Under the recent Ordinance, the Units issued by the UTI will be eligible to be treated as 'trustee securities' under the Indian Trusts Act, 1882. Various Trusts can, therefore, now invest their funds in units as soon as the necessary rules and regulations are framed by UTI. The facility for nomination announced in the ordinance will also be available to unit-holders shortly when the present schemes are amended for this purpose. The nomination facility will be available for existing holders too.

### Andhra Pradesh Paper

Andhra Pradesh Paper Mills Ltd has achieved a record production of 63,385 tonnes of paper during the year ended June 30, 1974. The tempo of production is expected to be maintained during the current year. The company's expansion programme of 15,000 tonnes per annum is in an advance stage of implementation and is expected to be completed by the first quarter of 1975.

The company's production has been more than doubled in reference to the output envisaged at the time

of incorporation and will further increase after the current expansion programme.

### News and Notes

**Hercules Hoists** has decided to expand its production facilities with the addition of some balancing equipment to cope with the growing activities. The company has developed small cranes and has already put them on the market. It is now engaged in developing new material handling equipment. Regular sales of the new range of electric hoists which was impeded last year on account of the delays in the supply of certain essential components is expected to pick up this year.

### New Issues

**Falcon Tyres** is setting up in backward area near Mysore City a Rs 1.40-crore project for the manufacture of tyres for scooters, motor-cycles and mopeds as also various types of industrial belts. The initial capacity of the plant will be four lakh tyres and an equal number of tubes and five lakh Industrial 'V' belts per annum. The capacity will be

stepped up in phases to one million units for each of these three items. According to current indications, the plant is expected to go into commercial production by September 1975. In view of the acute shortage of tyres, the management does not anticipate any difficulty in marketing its products. The management hopes that the company will start earning profits from 1975-76, the first year of commercial production. Hence the company is confident of declaring a reasonable dividend on equity shares for 1975-76. The profit for subsequent years is expected to be large enough to step up the dividend substantially after making all appropriations and satisfactory transfers to reserves.

To raise part of the resources required for the implementation of this project the company is offering to the public equity shares worth Rs 30 lakhs, all in equity shares of Rs 10 each. The subscription list opens on February 5 and will close on February 17 or earlier but not before February 7.

### Dividends

(per cent)

| Name of the company      | Year ended     | Equity dividend declared for |               |
|--------------------------|----------------|------------------------------|---------------|
|                          |                | Current year                 | Previous year |
| <b>Higher Dividend</b>   |                |                              |               |
| Jain Tube Company        | July 31, 1974  | 12.0                         | 8.0           |
| <b>Same Dividend</b>     |                |                              |               |
| Indian Standard Metal    | Dec 31, 1973   | 10.0                         | 10.0          |
| Indian Rayon             | June 30, 1974  | Nil                          | Nil           |
| Inchek Tyres             | June 30, 1974  | Nil                          | Nil           |
| East Anglia Plastics     | June 30, 1974  | Nil                          | Nil           |
| <b>Reduced Dividend</b>  |                |                              |               |
| Indian Hume Pipe         | June 30, 1974  | 8.0                          | 12.0          |
| Bombay Potteries         | Sep. 30, 1974  | Nil                          | 6.0           |
| Tube Suppliers           | July 31, 1974  | Nil                          | 8.0           |
| Walchandnagar Industries | Sept, 30, 1974 | 7.7                          | 12.0          |

# RECORDS AND STATISTICS

## Wholesale prices

THE OFFICIAL wholesale prices index (with the year ended March, 1962=100) recorded a fall of 0.5 per cent to 315.1 during the week ended December 21, 1974 as against 317.8 for the previous week. The all-commodities index at this level was lower by 1.0 per cent when compared to the corresponding week of the earlier months but was higher by 19.8 per cent than that of a year ago.

### Food Articles

Lower prices of betelnuts (—15 per cent), potatoes (—6 per cent), coconut oil and pepper black (—4 per cent each), fish (—3 per cent), ragi, moong and turmeric (—2 per cent each), jowar, gram, urad, onions, bananas, ghee, groundnut oil, gur and chillies (—1 per cent each) brought down the index for "Food Articles" by 0.5 per cent to 368.9 as against 370.6 for the last week. However, the prices of cardamoms (—7 per cent), barley and oranges (+3 per cent each), eggs and coffee (+2 per cent each), wheat, bajra, maize and gingelly oil (+1 per cent each) advanced.

### Liquor and Tobacco

A fall of 1.5 per cent to 308.2 as against 313.0 for the earlier week in the index for "Liquor & Tobacco" was caused by a decline in the prices of raw tobacco (—3 per cent).

### Fuel, Power Light and Lubricants

The index for the "Fuel, Power, Light & Lubricants" group stood at 318.5 as against 318.6 for the previous week.

### Industrial Raw Materials

The index for "Industrial

Raw Materials" came down by 1.1 per cent to 317.8 as against 321.3 for the earlier week due to a fall in the prices of raw skins (—5 per cent), rapeseed (—4 per cent), jute raw and mesta, groundnuts, castorseed and gingellyseed (—2 per cent each) and raw hides (—1 per cent). The prices of copra (+2 per cent) and tanning materials (+1 per

cent) however, moved up.

### Chemicals

Indices for the "Chemicals" and "Machinery & Transport Equipment" groups stood stationary at their previous week's level of 312.6 and 269.1 respectively.

### Manufactures

"Manufactures" group com-

## Index Numbers of Wholesale Prices by Groups & Sub-Groups

(Base: 1961-62=100)

| Groups & Sub-Groups                        | Weights | Week ended |          |          |          |
|--------------------------------------------|---------|------------|----------|----------|----------|
|                                            |         | 21-12-74   | 14-12-74 | 23-11-74 | 22-12-73 |
| <b>Food Articles</b>                       | (412)   | 368.9      | 370.6    | 374.2    | 304.2    |
| Foodgrains                                 | 358     | 410.9      | 410.6    | 415.2    | 305.0    |
| Cereals                                    | 293     | 376.9      | 375.9    | 379.8    | 278.5    |
| Pulses                                     | 65      | 564.4      | 567.0    | 574.7    | 424.3    |
| Fruits & vegetables                        | 57      | 276.9      | 280.0    | 284.1    | 279.9    |
| Milk & milk products                       | 147     | 324.6      | 325.5    | 382.0    | 289.9    |
| Edible oils                                | 130     | 408.2      | 412.9    | 414.4    | 358.6    |
| Fish eggs & meat                           | 49      | 523.8      | 531.5    | 536.4    | 463.1    |
| Sugar & allied products                    | 157     | 321.0      | 323.1    | 329.7    | 292.2    |
| Others                                     | 102     | 286.3      | 287.8    | 287.0    | 203.6    |
| <b>Liquor &amp; Tobacco</b>                | (25)    | 308.2      | 313.0    | 310.4    | 250.3    |
| Liquor                                     | 44      | 215.2      | 215.2    | 215.2    | 180.7    |
| Tobacco                                    | 956     | 312.4      | 317.5    | 314.8    | 253.5    |
| <b>Fuel Power, Light &amp; Lubricants</b>  | (61)    | 318.5      | 318.5    | 318.6    | 235.1    |
| Coal                                       | 214     | 263.2      | 263.2    | 263.2    | 190.4    |
| Coke                                       | 57      | 357.3      | 357.3    | 357.3    | 268.4    |
| Minerals oils                              | 495     | 395.7      | 395.7    | 395.7    | 278.7    |
| Rectified spirit                           | 5       | 323.1      | 323.1    | 323.1    | 306.9    |
| Electricity                                | 219     | 186.5      | 186.5    | 186.5    | 162.1    |
| Castor oil                                 | 10      | 350.3      | 351.2    | 351.8    | 407.8    |
| <b>Industrial Raw Materials</b>            | (121)   | 357.8      | 321.8    | 320.8    | 311.2    |
| Fibres                                     | 340     | 239.8      | 240.0    | 237.1    | 231.8    |
| Oilseeds                                   | 433     | 413.5      | 420.4    | 419.5    | 396.5    |
| Minerals                                   | 29      | 158.1      | 158.1    | 158.1    | 154.5    |
| Others                                     | 198     | 266.1      | 267.9    | 272.6    | 283.8    |
| <b>Chemicals</b>                           | (7)     | 312.6      | 312.6    | 309.4    | 216.0    |
| <b>Machinery &amp; Transport Equipment</b> | (79)    | 269.1      | 269.1    | 269.1    | 187.7    |
| Electrical machinery                       | 238     | 247.7      | 247.7    | 247.7    | 184.1    |
| Non-electrical machinery                   | 490     | 310.7      | 310.7    | 310.7    | 208.5    |
| Transport equipment                        | 272     | 213.0      | 213.0    | 212.0    | 153.5    |
| <b>Manufactures</b>                        | (294)   | 254.1      | 255.8    | 255.8    | 217.0    |
| <b>Intermediate Products</b>               | 195     | 303.5      | 303.1    | 310.8    | 291.8    |
| Textile Yarn                               | 87      | 225.3      | 224.9    | 222.1    | 217.1    |
| Leather                                    | 17      | 206.4      | 202.7    | 193.3    | 210.8    |
| Metals                                     | 83      | 392.0      | 392.0    | 393.3    | 374.4    |
| Linseed oil                                | 8       | 442.2      | 445.1    | 450.1    | 418.7    |
| <b>Finished Products</b>                   | 805     | 242.1      | 244.4    | 244.6    | 198.9    |
| Textiles                                   | 386     | 228.6      | 233.1    | 233.4    | 195.5    |
| Metal products                             | 130     | 281.5      | 281.5    | 281.5    | 246.9    |
| Non-metallic products                      | 51      | 263.7      | 262.6    | 263.2    | 193.3    |
| Chemicals products                         | 92      | 249.5      | 249.5    | 249.4    | 175.3    |
| Leather products (Shoes)                   | 30      | 151.1      | 151.1    | 148.8    | 110.6    |
| Rubber products                            | 34      | 226.2      | 226.2    | 226.2    | 163.5    |
| Paper products                             | 33      | 241.5      | 241.5    | 241.5    | 151.8    |
| Oilcakes                                   | 26      | 362.1      | 370.7    | 375.3    | 271.6    |
| Miscellaneous                              | 28      | 172.4      | 172.4    | 172.4    | 133.8    |
| <b>All Commodities</b>                     | (1000)  | 316.1      | 317.8    | 319.2    | 263.9    |

Note : Weights assigned in combining seven groups into a single all commodities index are given within brackets. Weights assigned to various sub-groups within the groups are given without brackets.

Source: Office of the Economic Adviser to the Govt. of India, Ministry of Industry & Civil Supplies.

prising of (a) Intermediate Products and (b) Finished Products declined by 0.7 per cent to 254.1 as against 255.8 for the last week.

(a) The index for "Inter-

mediate Products" slightly moved up by 0.1 per cent to 303.5 as against 303.1 for the previous week due to an increase in the prices of leather (+2 per cent) and rayon yarn (+1 per cent). The prices of

linseed oil (-1 per cent), however, fell.

(b) The index for "Finished Products" receded by 0.9 per cent to 242.1 owing to a fall in the prices of cotton cloth

(mills) (-1 per cent) and silk manufactures and dyestuffs (-2 per cent each). However, the prices of silk and rayon manufactures and bricks and tiles (+1 per cent) advanced.

#### Index Numbers of Industrial Production

(Base: 1970=100)

| Group                                   | Weight | 1972  | 1973  | January-June |             | Percentage change in |                                |
|-----------------------------------------|--------|-------|-------|--------------|-------------|----------------------|--------------------------------|
|                                         |        |       |       | 1973         | 1974 (Prov) | 1973 over 1972       | Jan-June '74 over Jan-June '73 |
| General index (crude)                   | 100.00 | 199.4 | 200.7 | 197.0        | 200.4       | +0.7                 | +1.7                           |
| Electricity generated                   | 5.37   | 390.7 | 383.8 | 369.1        | 406.5       | -1.8                 | +10.1                          |
| Mining & quarrying                      | 9.72   | 164.2 | 163.6 | 168.7        | 177.1       | -0.4                 | +5.0                           |
| Manufacturing                           | 84.91  | 191.4 | 193.1 | 188.9        | 190.0       | +0.9                 | +0.6                           |
| Food manufacturing                      | 12.09  | 162.6 | 154.5 | 152.3        | 153.0       | -5.0                 | +0.5                           |
| Beverage & tobacco                      | 2.22   | 174.1 | 178.9 | 169.1        | 187.6       | +2.8                 | +10.9                          |
| Textile manufacturing                   | 27.06  | 114.4 | 113.3 | 107.3        | 106.1       | -1.0                 | -1.1                           |
| Cotton textiles                         | 218.18 | 112.6 | 114.1 | 106.4        | 109.1       | +1.3                 | +2.5                           |
| Jute textiles                           | 3.97   | 96.8  | 90.6  | 90.2         | 72.6        | -6.4                 | -19.5                          |
| Footwear manufacture                    | 0.21   | 150.8 | 151.3 | 157.4        | 144.3       | +0.3                 | -8.3                           |
| Wood & cork manufacture                 | 0.80   | 217.7 | 158.4 | 157.2        | 159.4       | -27.2                | +1.4                           |
| Paper & paper products                  | 1.61   | 226.1 | 236.4 | 221.3        | 244.4       | +4.6                 | +10.4                          |
| Leather & fur products                  | 0.43   | 59.9  | 76.4  | 73.2         | 78.2        | +27.5                | +6.8                           |
| Rubber products                         | 2.22   | 256.0 | 250.6 | 232.7        | 266.4       | -2.1                 | +14.5                          |
| Manufacture of chemicals                | 7.26   | 293.7 | 301.9 | 301.7        | 293.2       | +2.8                 | -2.8                           |
| Petroleum refinery products             | 1.34   | 317.2 | 332.8 | 307.2        | 351.5       | +4.9                 | +14.4                          |
| Non-metallic minerals                   | 3.85   | 225.2 | 226.6 | 220.4        | 230.8       | +0.6                 | +4.7                           |
| Basic metal industries                  | 7.38   | 225.3 | 215.8 | 218.8        | 200.3       | -4.2                 | -8.5                           |
| Manufacture of metal products           | 2.51   | 242.7 | 240.5 | 253.5        | 255.7       | -0.9                 | +0.9                           |
| Manufacture of non-electrical machinery | 3.38   | 402.7 | 454.9 | 444.7        | 450.9       | +13.0                | +1.4                           |
| Electrical machinery                    | 3.05   | 435.0 | 436.2 | 434.2        | 428.0       | +0.3                 | -1.4                           |
| Transport equipment                     | 7.77   | 133.5 | 148.1 | 149.3        | 148.0       | +10.0                | -0.9                           |
| Miscellaneous industries                | 1.23   | 86.5  | 74.5  | 49.7         | 100.6       | -13.9                | +102.4                         |

Source: C. S. O.

#### Index Numbers of Security Prices—All India

(Base: 1970-71=100)

| Week ended                                        | 1974    |         |         |         | 1975   |         |
|---------------------------------------------------|---------|---------|---------|---------|--------|---------|
|                                                   | Jan. 12 | Dec. 14 | Dec. 21 | Dec. 28 | Jan. 4 | Jan. 11 |
| Government and semi-government securities         | 98.8    | 96.9    | 96.9    | 96.9    | 96.9   | 96.9    |
| Government of India                               | 98.4    | 95.9    | 95.9    | 95.9    | 96.0   | 95.9    |
| State governments                                 | 99.8    | 99.3    | 99.3    | 99.3    | 99.2   | 99.2    |
| Semi-government institutions                      | 100.8   | 101.1   | 101.1   | 101.1   | 101.1  | 101.1   |
| Debentures                                        | 97.1    | 95.4    | 95.4    | 95.3    | 95.3   | 95.3    |
| Preference shares                                 | 94.3    | 89.1    | 89.0    | 89.0    | 89.0   | 88.8    |
| Ordinary shares                                   | 115.3   | 102.9   | 104.6   | 105.0   | 105.0  | 104.3   |
| Tea plantations                                   | 95.5    | 109.3   | 121.4   | 122.5   | 124.3  | 124.0   |
| Cotton textiles                                   | 134.7   | 124.3   | 125.8   | 126.0   | 125.8  | 125.3   |
| Jute textiles                                     | 153.6   | 128.7   | 132.7   | 133.7   | 135.6  | 136.1   |
| Silk, woollen and rayon textiles                  | 136.0   | 114.7   | 118.2   | 119.9   | 120.0  | 119.2   |
| Iron and steel                                    | 60.6    | 48.3    | 49.2    | 49.8    | 48.4   | 47.2    |
| Aluminium                                         | 76.5    | 54.7    | 54.3    | 54.5    | 54.8   | 54.8    |
| Transport equipment                               | 90.4    | 77.1    | 78.7    | 77.1    | 78.9   |         |
| Electrical, machinery apparatus, appliances, etc. | 123.1   | 102.4   | 104.2   | 105.2   | 105.3  | 105.0   |
| Chemical fertilisers                              | 162.5   | 140.4   | 142.7   | 145.8   | 144.0  | 143.7   |
| Other basic industrial chemicals                  | 114.0   | 105.7   | 107.1   | 107.0   | 106.1  | 105.2   |
| Cement                                            | 103.2   | 83.5    | 86.5    | 87.4    | 87.3   | 86.3    |
| Paper and paper products                          | 139.1   | 159.1   | 163.8   | 164.4   | 166.0  | 164.6   |
| Rubber and rubber products                        | 108.1   | 96.0    | 96.5    | 96.3    | 96.5   | 96.2    |
| Electricity generation and supply                 | 84.2    | 63.3    | 62.8    | 62.9    | 63.0   | 62.5    |
| Shipping                                          | 122.2   | 138.0   | 138.2   | 140.0   | 138.5  | 138.1   |

Source: Reserve Bank of India

JANUARY 31, 1975



**Scheduled Commercial Banks**

(Rs lakhs)

|                                            | Jan. 10,<br>1975 | A week<br>ago | A month<br>ago | A year<br>ago |
|--------------------------------------------|------------------|---------------|----------------|---------------|
| 1. Demand deposits                         | 4,901,41         | 4,802,14      | 4,722,61       | 4,177,34      |
| 2. Time deposits                           | 6,745,57         | 6,732,67      | 6,679,23       | 5,879,79      |
| 3. Aggregate deposits                      | 11,646,98        | 11,534,81     | 11,401,84      | 10,057,12     |
| 4. Borrowings from Reserve Bank            | 101,55           | 164,61        | 71,90          | 234,46        |
| 5. Cash                                    | 294,83           | 294,40        | 279,50         | 237,95        |
| 6. Balances with Reserve Bank              | 511,80           | 551,93        | 527,03         | 695,32        |
| 7. Cash and balance with Reserve Bank      | 806,63           | 846,33        | 806,53         | 933,27        |
| 8. Investment in government securities     | 2,743,18         | 2,738,68      | 2,736,06       | 2,367,87      |
| 9. Advances                                | 6,670,88         | 6,640,98      | 6,473,73       | 5,783,85      |
| 10. Inland bills purchased and discounted  | 966,51           | 957,93        | 926,02         | 943,43        |
| 11. Foreign bills purchased and discounted | 399,87           | 392,12        | 396,89         | 357,23        |
| 12. Total Bank credit                      | 8,037,26         | 7,991,03      | 7,796,64       | 7,084,52      |
| 13. Percentage of :                        |                  |               |                |               |
| (7) to (3)                                 | 6.93             | 7.34          | 7.07           | 9.28          |
| (8) to (3)                                 | 23.55            | 23.74         | 24.00          | 23.54         |
| (12) to (3)                                | 69.01            | 69.28         | 68.38          | 70.44         |

Source : Reserve Bank of India

**Reserve Bank of India**

(Rs lakhs)

|                                       | Jan. 10,<br>1975 | A week<br>ago | A month<br>ago | A year<br>ago |
|---------------------------------------|------------------|---------------|----------------|---------------|
| <b>Issue Department</b>               |                  |               |                |               |
| Notes held in banking department      | 23,50            | 34,45         | 43,04          | 31,45         |
| Notes in circulation                  | 6,110,22         | 5,995,70      | 6,105,15       | 5,777,70      |
| Total notes issued                    | 6,133,72         | 6,030,15      | 6,148,19       | 5,809,15      |
| Gold coin and bullion                 | 182,53           | 182,53        | 182,53         | 182,53        |
| Foreign securities                    | 141,74           | 141,74        | 141,74         | 101,74        |
| Rupee coin                            | 14,12            | 15,56         | 13,58          | 9,55          |
| Govt. of India rupee securities       | 5,795,33         | 5,690,33      | 5,810,34       | 5,515,34      |
| <b>Banking Department</b>             |                  |               |                |               |
| Deposits of cent. govt.               | 45,79            | 52,58         | 54,88          | 64,34         |
| Deposits of state govts.              | 6,88             | 13,72         | 11,77          | 11,28         |
| Deposits of banks                     | 530,41           | 570,97        | 542,72         | 711,80        |
| Other deposits                        | 557,83           | 564,72        | 562,10         | 72,38         |
| Other liabilities                     | 1,652,80         | 1,681,41      | 1,627,52       | 1,276,14      |
| Total liabilities or assets           | 2,793,70         | 2,883,38      | 2,789,98       | 2,135,94      |
| Notes and coins                       | 23,61            | 34,54         | 43,11          | 31,51         |
| Balances held abroad                  | 366,72           | 371,68        | 513,33         | 216,63        |
| <b>Loans and Advances to:</b>         |                  |               |                |               |
| State governments                     | 185,68           | 158,34        | 143,33         | 173,95        |
| Scheduled Com. banks                  | 101,64           | 164,61        | 71,90          | 234,46        |
| State coop. banks                     | 445,98           | 445,84        | 390,47         | 359,61        |
| Other loans and advances              | 325,09           | 324,67        | 319,00         | 176,45        |
| <b>Bills purchased and discounted</b> |                  |               |                |               |
| Internal                              | 166,36           | 164,89        | 134,92         | 130,67        |
| Govt. treasury bills                  | 411,54           | 414,52        | 587,44         | 252,51        |
| Investments                           | 565,90           | 600,63        | 449,00         | 476,83        |
| Other assets                          | 201,27           | 203,68        | 146,49         | 73,31         |

**Money Supply with the Public**

(Rs. crores)

| Week ended                                             | 1974   |        |        |        |        | 1975   |
|--------------------------------------------------------|--------|--------|--------|--------|--------|--------|
|                                                        | Jan 4  | Dec 6  | Dec 13 | Dec 20 | Dec 27 | Jan 3  |
| <b>A. Money supply with the public</b>                 | 10,206 | 11,174 | 11,249 | 11,182 | 11,065 | 11,148 |
| Currency with the public                               | 5,849  | 6,272  | 6,334  | 6,273  | 6,143  | 6,167  |
| Other deposits with the Reserve Bank                   | 35     | 46     | 68     | 50     | 51     | 54     |
| Bank money                                             | 4,322  | 4,856  | 4,847  | 4,859  | 4,871  | 4,927  |
| <b>B. Factors affecting money supply (1+2+3+4-5)</b>   |        |        |        |        |        |        |
| 1. New banks credit to government sector (a+b)         | 8,692  | 9,686  | 9,662  | 9,432  | 9,365  | 9,541  |
| (a) Reserve Bank's net credit to government sector     | 6,227  | 6,827  | 6,826  | 6,589  | 6,549  | 6,703  |
| (b) Other banks' credit to government sector           | 2,465  | 2,859  | 2,836  | 2,843  | 2,816  | 2,838  |
| 2. Bank credit to commercial sector (a+b)              | 9,048  | 9,835  | 9,932  | 10,066 | 10,076 | 10,257 |
| (a) Reserve Bank's credit to commercial sector         | 389    | 557    | 564    | 579    | 589    | 600    |
| (b) Other banks' credit to commercial sector           | 8,659  | 9,278  | 9,368  | 9,486  | 9,487  | 9,657  |
| 3. Net foreign exchange assets of banking sector       | 511    | 449    | 426    | 430    | 416    | 284    |
| 4. Government's net currency liabilities to the public | 489    | 519    | 519    | 518    | 511    | 512    |
| 5. Non-monetary liabilities of banking sector (a+b+c)  | 8,534  | 9,315  | 9,290  | 9,263  | 9,303  | 9,446  |
| (a) Time deposits with banks                           | 6,175  | 6,994  | 7,035  | 7,034  | 7,049  | 7,090  |
| (b) Net non-monetary liabilities of RBI                | 1,269  | 1,574  | 1,581  | 1,564  | 1,596  | 1,595  |
| (c) Residual                                           | 1,090  | 747    | 674    | 665    | 658    | 761    |
| <b>C. Aggregate monetary resources A+B5(a)</b>         | 16,381 | 18,168 | 18,284 | 18,216 | 18,114 | 18,238 |

Source : Reserve Bank of India

### Consumer Price Index Numbers for Industrial Workers

| Centre            | 1965-<br>66 | 1967-<br>68 | 1968-<br>69 | 1969-<br>70 | 1970-<br>71 | 1971-<br>72 | 1972-<br>73 | 1973-<br>74 | 1973 | 1974 |       |     |      |      |     |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------|------|-------|-----|------|------|-----|
|                   |             |             |             |             |             |             |             |             | Aug  | Mar  | April | May | June | July | Aug |
| (Base : 1949=100) |             |             |             |             |             |             |             |             |      |      |       |     |      |      |     |
| All-India         | 169         | 213         | 212         | 215         | 226         | 233         | 251         | 304         | 300  | 334  | 344   | 357 | 366  | 378  | 390 |
| (Base : 1960=100) |             |             |             |             |             |             |             |             |      |      |       |     |      |      |     |
| All-India         | —           | —           | 174         | 177         | 186         | 192         | 207         | 250         | 247  | 275  | 283   | 294 | 301  | 311  | 321 |
| Ahmedabad         | 130         | 168         | 165         | 169         | 176         | 181         | 198         | 245         | 233  | 264  | 272   | 284 | 290  | 295  | 307 |
| Alwaye            | 145         | 183         | 198         | 197         | 198         | 202         | 215         | 267         | 287  | 288  | 298   | 312 | 322  | 338  | 353 |
| Asansol           | 140         | 168         | 176         | 187         | 189         | 194         | 206         | 245         | 241  | 274  | 286   | 298 | 301  | 312  | 325 |
| Bangalore         | 144         | 172         | 180         | 183         | 186         | 194         | 212         | 265         | 258  | 286  | 286   | 292 | 299  | 306  | 314 |
| Bhavanagar        | 132         | 173         | 176         | 178         | 186         | 194         | 217         | 273         | 260  | 285  | 297   | 306 | 302  | 310  | 320 |
| Bombay            | 130         | 162         | 167         | 175         | 182         | 190         | 203         | 233         | 227  | 249  | 259   | 269 | 277  | 282  | 290 |
| Calcutta          | 131         | 163         | 170         | 172         | 182         | 187         | 197         | 228         | 220  | 255  | 264   | 272 | 276  | 282  | 295 |
| Coimbatore        | 132         | 151         | 147         | 152         | 163         | 177         | 189         | 218         | 211  | 246  | 258   | 269 | 272  | 280  | 303 |
| Delhi             | 136         | 172         | 178         | 185         | 199         | 211         | 222         | 265         | 259  | 296  | 309   | 325 | 330  | 335  | 345 |
| Digboi            | 138         | 198         | 185         | 180         | 189         | 188         | 198         | 234         | 232  | 256  | 260   | 273 | 282  | 297  | 316 |
| Gwalior           | 139         | 191         | 179         | 184         | 191         | 197         | 214         | 271         | 265  | 312  | 316   | 329 | 339  | 342  | 354 |
| Howrah            | 137         | 178         | 181         | 176         | 186         | 191         | 206         | 280         | 229  | 270  | 274   | 280 | 255  | 291  | 304 |
| Hyderabad         | 140         | 167         | 173         | 185         | 189         | 195         | 211         | 251         | 253  | 271  | 273   | 277 | 284  | 291  | 299 |
| Jamshedpur        | 136         | 183         | 171         | 190         | 183         | 187         | 202         | 249         | 249  | 278  | 293   | 307 | 311  | 317  | 324 |
| Madras            | 134         | 151         | 150         | 160         | 170         | 182         | 203         | 229         | 226  | 248  | 261   | 268 | 271  | 280  | 299 |
| Madurai           | 128         | 146         | 148         | 162         | 183         | 193         | 206         | 286         | 231  | 257  | 266   | 282 | 298  | 311  | 332 |
| Monghyr           | 151         | 215         | 185         | 188         | 203         | 204         | 225         | 292         | 278  | 347  | 344   | 337 | 360  | 378  | 389 |
| Mundkayam         | 138         | 173         | 186         | 191         | 197         | 199         | 210         | 263         | 279  | 286  | 291   | 309 | 323  | 333  | 338 |
| Nagpur            | 138         | 164         | 166         | 176         | 187         | 192         | 203         | 256         | 260  | 277  | 277   | 295 | 299  | 308  | 310 |
| Saharanpur        | 141         | 188         | 176         | 181         | 186         | 196         | 213         | 253         | 246  | 250  | 294   | 311 | 318  | 333  | 332 |
| Sholapur          | 128         | 165         | 167         | 176         | 185         | 198         | 216         | 277         | 275  | 279  | 288   | 295 | 302  | 314  | 318 |

Source : Labour Bureau, Govt. of India

### Consumer Price Index Numbers for Urban Non-Manual Employees

(Base : 1960=100)

| Centre                 | 1965-<br>66 | 1967-<br>68 | 1968-<br>69 | 1969-<br>70 | 1970-<br>71 | 1971-<br>72 | 1972-<br>73 | 1973-<br>74 | 1973<br>July | 1974 |       |     |      |      |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|------|-------|-----|------|------|
|                        |             |             |             |             |             |             |             |             |              | Mar  | April | May | June | July |
| <b>All-India</b>       | 123         | 159         | 161         | 167         | 174         | 180         | 192         | 221         | 216          | 238  | 244   | 251 | 256  | 262  |
| Bombay                 | 132         | 153         | 156         | 162         | 168         | 172         | 183         | 204         | 208          | 213  | 222   | 231 | 236  | 240  |
| Delhi—New Delhi        | 131         | 154         | 162         | 178         | 174         | 180         | 190         | 217         | 208          | 236  | 238   | 248 | 253  | 254  |
| Calcutta               | 126         | 152         | 156         | 162         | 170         | 174         | 180         | 204         | 197          | 219  | 221   | 227 | 229  | 233  |
| Madras                 | 133         | 154         | 154         | 161         | 175         | 188         | 204         | 221         | 224          | 250  | 257   | 269 | 269  | 273  |
| Hyderabad—Secunderabad | 133         | 155         | 159         | 167         | 174         | 180         | 193         | 228         | 220          | 237  | 240   | 248 | 254  | 260  |
| Bangalore              | 133         | 156         | 160         | 162         | 172         | 180         | 194         | 228         | 220          | 246  | 250   | 258 | 262  | 264  |
| Lucknow                | 132         | 159         | 156         | 161         | 166         | 174         | 185         | 215         | 207          | 235  | 243   | 248 | 256  | 260  |
| Ahmedabad              | 131         | 160         | 162         | 168         | 171         | 173         | 188         | 222         | 221          | 233  | 239   | 253 | 259  | 264  |
| Jaipur                 | 133         | 162         | 168         | 176         | 183         | 188         | 205         | 214         | 233          | 266  | 274   | 280 | 289  | 298  |
| Patna                  | 139         | 170         | 174         | 191         | 190         | 199         | 199         | 229         | 219          | 259  | 253   | 261 | 271  | 276  |
| Srinagar               | 134         | 160         | 157         | 174         | 184         | 191         | 200         | 215         | 209          | 237  | 244   | 244 | 247  | 248  |
| Trivandrum             | 131         | 165         | 168         | 172         | 178         | 184         | 198         | 231         | 225          | 250  | 258   | 266 | 269  | 272  |
| Cuttack—Bhubaneswar    | 142         | 164         | 167         | 169         | 176         | 184         | 196         | 221         | 214          | 239  | 242   | 246 | 249  | 255  |
| Bhopal                 | 133         | 166         | 166         | 172         | 180         | 188         | 204         | 288         | 233          | 258  | 261   | 268 | 276  | 288  |
| Chandigarh             | 129         | 155         | 165         | 171         | 178         | 183         | 194         | 217         | 209          | 237  | 241   | 246 | 248  | 253  |
| Shillong               | 123         | 155         | 163         | 164         | 166         | 175         | 183         | 208         | 202          | 217  | 229   | 233 | 237  | 247  |

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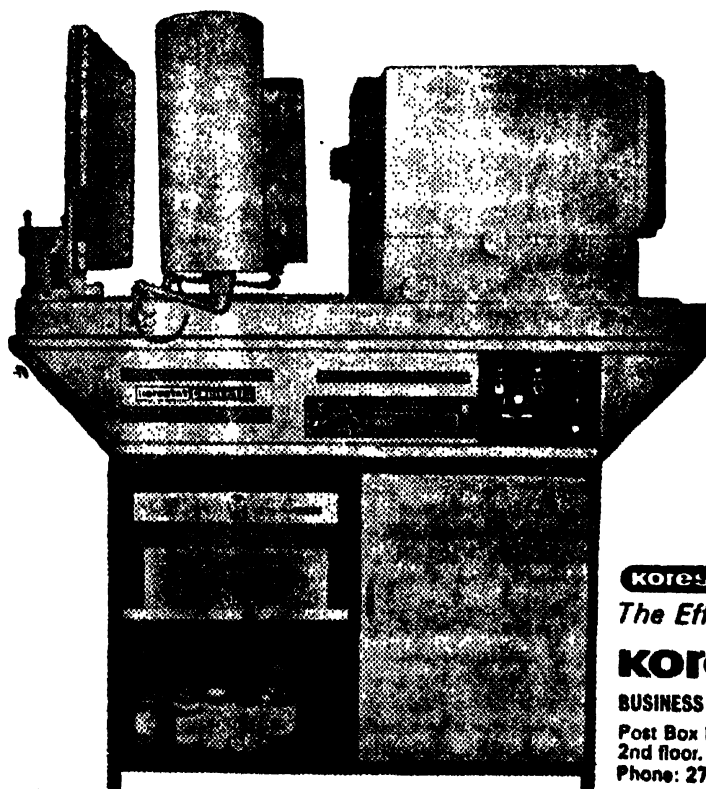
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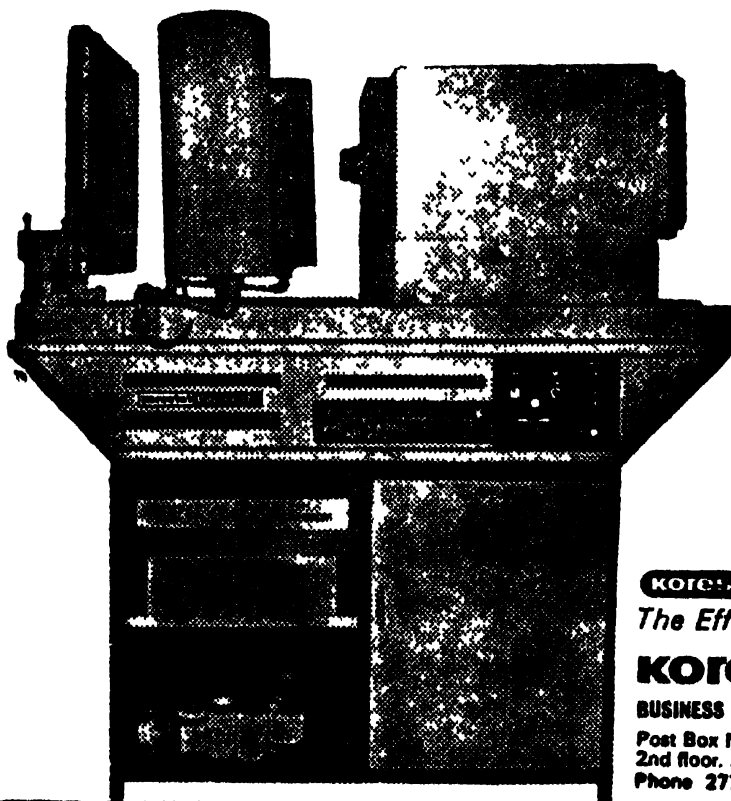
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# Where there's a will

instituted by Coromandel Fertilizers Limited to Dr S.V.S. Shastri for his research and development work on high-yielding varieties of rice. It may be recalled that some time ago Dr Borlaug had dismissed rather contemptuously the performance of the World Food Conference held in Rome under the auspices of the FAO as a lot of nonsense or words to that effect. It could be said to the credit of Dr Boerma that he skilfully utilized the occasion to enter a more or less persuasive plea on behalf of the Rome circus.

He painstakingly narrated the various proposals or resolutions discussed and adopted at that conference and suggested that it did make a constructive contribution towards a resolution of the world's food problem in many of its important aspects. He stressed in particular the progress achieved in initiating an international dialogue on the mobilization of the financial or technological resources of affluent countries (including, in this term, both the industrially advanced countries and the oil-exporting countries) for the rapid growth of food and agriculture in developing countries. He mentioned specifically the call given for the immediate establishment of an international fund for agricultural development which would be based on voluntary contributions from traditional donor countries and from new potential donors, notably the oil-exporting countries, and the recommendation made to the World Bank, the FAO and the UNDP to organize a Consultative Group on Food Production and Investment in developing countries in order to increase, coordinate and improve the efficiency of financial and technical assistance to agricultural production in the developing world.

Dr Boerma, however, was far from convincing when he pleaded that these proposals or indeed any other that took shape in Rome went anywhere near establishing the emergence or expression of a political will for dealing with the global food situation whether in its national aspects or in terms of its international linkages or ramifications. On the contrary, by suggesting that the establishment of a World Food Council at ministerial level as an organ of the United Nations General Assembly and serving within the framework of the FAO, with headquarters at Rome, as recommended by the Rome conference, could give form and substance to the political will, which was the theme of his address, the Director-General of the FAO merely did damage to his own credibility. After all, nobody, who had studied with any attention the proceedings or the backstage manoeuvres in Rome, would have failed to get wise to the fact that the Director-General of the FAO was himself actively opposed to the setting up of an effective world food security council at the highest political level for dealing with the basic issues of the world food problem with something like supra-national authority.

Even during the time the Rome conference was in session it was being freely said that Mr Boerma was not in favour of anything being said or done that could have the effect of downgrading the FAO whether in the administrative sense or in political terms. It may be argued perhaps that this was not an unnatural stand to take by the Director-General of the FAO. But then the FAO itself has self-confessedly failed to build up enough political authority or administrative muscle to take major initiatives for dealing with the world food problem, particularly in the matter of the lack of food security which is the nightmare of about a billion people in the poorer countries of the world. Looked at in this manner Dr Boerma's discourse on "Political Will and the World Food Problem" was like the celebrated lecture by a very learned zoologist on snakes in Greenland; the long and short of that lecture was that there were no snakes in Greenland.

Perhaps the most interesting part of Mr Boerma's address was the two sets of questions, which he addressed to the developing countries and the richer countries respec-

THERE WAS an element of irony, surely, in Dr A.H. Boerma, Director-General of the FAO, delivering the fifth Coromandel lecture on the occasion of the presentation of the Borlaug Award

## eastern ECONOMIST

FEBRUARY 7, 1975

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tively, as he concluded his speech. We welcome in particular his asking the governments of developing countries whether they are prepared "to switch the necessary financial resources to invest sufficiently in food and agricultural production for the benefit of their people, often at the expense of projects which seemed to satisfy more immediately the requirements of national pride or prestige," Mr P.N. Haksar, deputy chairman of the Planning Commission, who presided on the occasion, predictably parried the thrust most skilfully. He ignored the reference to national pride or prestige, but he said that, so far as the Indian government was concerned, it would not be stinting on investment in agriculture when finalizing the annual plan which is now being processed. He indicated that agriculture would have high priority and that minor and medium irrigation works would be emphasized so that schemes in progress as well as new quick-yielding projects in that sector could be completed as early as possible. He also noted specially the importance that power development would receive especially in the light of the needs of farming or farmers.

Mr Haksar met particularly effectively Dr Boerma's point that large-scale rural landlords should not be allowed to impede agrarian reform in developing countries. The deputy chairman of the Planning Commission quite properly pointed out that prosperous peasants were not necessarily evil people since prosperity could be natural expression of their efficiency in productivity as farmers. He was confident that any reasonable scheme of agrarian reform should be able to carry with it all farmers, big and small. The important thing as he explained, was to stop treating agrarian reform as a slogan or a shibboleth and start breaking it down to its practical details in all their varying form and substance so that what was really important for agricultural development or relevant to the good of the society could be attempted and accomplished as an orderly and constructive process. Mr Haksar's observations in this context were particularly appropriate since the FAO itself has been notoriously guilty of generalizing about land reforms from an arm-chair perspective. It is to be hoped that Dr Boerma will return to his headquarters

in Rome with a better appreciation of what the FAO could do in its own subordinate jurisdiction of the particulars of the technical or marginal financial assistance it may be in a position to render to farm development programmes around

the world and a keener sense of the limitation of that agency whether as catalyst, precipitator or vehicle of the political will which he himself has so rightly underlined as the key factor in the world food situation.

## Some thoughts on oil crisis

DISCUSSING THE role of the USA in the financial crisis created by the piling up of billions of petrodollars in the OPEC accounts since December 1973 when the price of oil was raised, *Fortune* (a US monthly magazine) in its editorial in the December 1974 issue had suggested a number of measures to weaken and fight the oil cartel. It suggested that the USA should restrain its own consumption of oil and should also take measures to expand its oil output. It also recommended expanded use of coal resources in the USA coupled with accelerated development of nuclear power and increased offshore drilling for oil. If the USA formulated its policies on these lines, *Fortune* argued that within a couple of years, OPEC may be forced to reduce production in order to maintain the current level of prices but the decision to cut output may cause fissures in the united stand of oil-exporting countries. Once that happened, oil prices in the world would tumble. *Fortune* also hastened to add that since the USA had not so far taken any such steps, the oil exporting countries seemed confident that far from reducing the price of oil, they might be called upon to raise it further if the current inflationary pressures all over the world were not reduced.

The case of the oil-exporting countries was presented in a cogent fashion by Mr Ahmed Kouross, deputy minister of Economy in Iran, at the second international seminar of economic journalists held in the capital recently. Full text of his speech has already appeared in *Eastern Economist* dated January 31, 1975, on page 211. The upshot of his argument was that much before the hike in oil prices in December 1973, the developed countries were already in the

throes of a crisis caused partly by the simultaneous growth in income and inflation. During the decade 1960-70, the terms of trade were heavily in favour of the industrialised countries and the process of inflationary growth in these countries led to "over-consumption, social tensions and permissiveness". All that the oil-producing countries did was to revise the price of oil not according to its cost of production but "in terms of the cost of its alternatives and the real value of its derivatives". The contribution of the revised prices of oil to world inflation, asserted Mr Kouross, was small—only 1.5 per cent in 1974 against the overall inflation of 14 per cent.

Regarding the balance of payments difficulties of developing countries, Mr Kouross said that "the change in the deficit on current account of the balance of payments of the developing countries between 1973 and 1975 will be \$ 21 billion of which \$ 6.8 billion constitute the oil component". For the developed countries, the oil bill will increase by \$49 billion between 1973 and 1975 but the government of Iran, one of the members of OPEC, had already taken steps to recycle the petrodollars accruing to it. And other countries under the auspices of IMF were already adopting measures to keep the wheels of world trade moving. Mr Kouross however warned that the industrial countries must bring their inflation to a tolerable rate. If they did not, then the oil-exporting countries would be justified in again raising the price of oil.

In answer to the question if the oil price hike and the Arab-Israeli conflict were in any way linked, Mr Kouross said that it was unfair to play politics with oil. In fact, the price of oil had been raised in stages—the first increase having taken place in February 1971 (Tehran Agreement). The first Geneva Agreement of January 1972, the second

Geneva Agreement of May 1973 and then the oil embargo of September 1973 followed by a further agreement in October 1973—all these constituted stages in the gradual raising of the oil price.

Mr K. D. Malaviya, the central minister for Petroleum and Chemicals described the present crisis as the payments crisis and not the oil crisis. He saw it as a crisis which failed to fix the economic price or reasonable price of not only oil but also of several other commodities and raw materials whose finished products were being sold by the industrialised countries at a high premium. This situation had been developing since the end of World War II. He made a pertinent reference to iron ore whose price was in no way linked with that of the prices of pig iron and finished steel.

Under the auspices of the International Monetary Fund, OIL FACILITY—a new fund—was created last year to alleviate the balance of payments disequilibrium of some of the member countries. It was expected that this fund would extend assistance upto SDR 3,000 million, though till January 15, 1975, purchases under the oil facility were equivalent to SDR 1,797 million only. The Board of Governors of the IMF had decided on January 15-16 this year to continue the oil facility for 1975 so as to increase its funds upto SDR 5,000 million. Also, recently a decision was taken that a solidarity fund—a new financial support arrangement open to the 24 members of the Organization for Economic Cooperation and Development (OECD)—should be established as soon as possible for a two-year period. This will constitute the safety net to be used as a last resort and will be established on the basis of quotas approximately SDR 25,000 million. It is thus clear that the IMF has made efforts to mitigate the misery of the countries which became a victim of the balance of payments disequilibrium due to the sharp rise in oil prices and other factors. However, many of the countries are still dissatisfied with these arrangements because they are afraid that the surpluses of the oil-exporting countries are likely to assume astronomical proportions in the coming years. With a surplus of

\$ 60,000 million in 1974, the oil-exporting countries—according to some estimates—are likely to have a surplus of \$ 80,000—90,000 million in 1975 and around \$ 100,000 million in 1976.

At the second seminar of the economic journalists a reference to which has been made earlier, Mr C. Subramaniam central minister of Finance, put forward the opinion that it was not the oil crisis which had been the beginning of the monetary crisis. It had begun, he said, much earlier. Not even the delinking of gold and dollar which took place in 1971 was the beginning of the crisis. Our country had experienced the pressure of the impending crisis through the prices of various commodities and raw materials which we were importing from foreign countries. Mr Subramaniam felt that if an attempt was made to solve the monetary crisis or the energy crisis in isolation, it would yield an abiding solution. He wanted the solution to be found in a wide perspective. He said: "We have to find an answer as to in which direction the humanity has got to move and whether we go back to the same position where progress was measured in terms of GNP and more and more consumption or do we want to take a different view from that?"

A note of caution was struck by Mr Y. B. Chavan, central minister for External Affairs, at the seminar while discussing the implications of the current global crisis. He felt that a major pro-

blem before the world in 1975 would be to ensure that the legitimate concern with economic order and maintenance of a healthy structure of international payments did not unwillingly lead to a major slump in economic activity. He was of the view that there were indications of the developed countries considering measures to restrict their trade to control the growing balance of payments difficulties. The resulting restrictionist environment for world trade was bound to have serious detrimental effect on the growth and employment, he added. In that case, the exports of developing countries were likely to become the first casualty. According to certain reliable projections, the non-oil-producing developing countries were likely to have a balance of payments deficit of \$ 21,030 million in 1974 as against \$ 8,000 million in 1973. The massive burden imposed on these countries by higher prices of fuel, fertilisers and food was evident from the fact that the deterioration in their balance of payments in 1974 was likely to be in excess of the estimated flow of \$ 9,400 million of the official development assistance from the OECD countries. That was why Mr Chavan recommended that any attempt at restructuring the world economic system should pay adequate attention to the problems of the countries which had come to be known as "the most seriously affected developing countries."

The address of Mr Claude Cheysson,

## *Eastern Economist 30 Years Ago*

FEB. 9, 1945

During the quarter ended December, 1944, the total number of offices of scheduled banks increased from 2,239 to 2,401 i.e., an addition of 162 offices, as compared with an addition of 96 offices in the previous quarter and 102 offices in the quarter ended June 1944. The pace of branch expansion in the last three months of 1944 is the highest for the entire war period, the nearest to it being in October to December, 1943. Apparently the war-time impetus to branch banking has not spent itself, and what with the restrictions on the opening of branches, which would come into force after the Banking Bill is passed, a continuation of rapid

expansion is only to be expected. Of the new offices opened in the last quarter of 1944, the three new banks added to the Second Schedule accounted for 32 offices, and the Imperial Bank closed one and opened eight, thus bringing its total to 419. The distribution province-wise is as follows: the Punjab 40; UP 19; Bengal 16; Bombay 14; C.P. 13; Madras 7; Bihar and Delhi 5 each; N.W.F.P. 3; Assam 2; Indian States 12. Of these 26, offices were opened at places which were not previously served either by a scheduled bank or by a non-scheduled bank having capital and reserves above Rs 50,000.

Commissioner for Development, European Economic Community, at the seminar of the Forum of Financial Writers<sup>a</sup> was a refreshing attempt at not only understanding the current global crisis but also in presenting some suggestions to "turn it into a force for progress". He deplored the tendency to isolationism in the USA and Europe which he opined was caused by the sharp decline in growth and the mounting balance of payments deficits in some of the countries in 1974. But it would be wrong to jump to the conclusion that developed countries alone faced an alarming crisis. The developing countries were also seriously affected. The only countries which faced a favourable turn in economic affairs were the oil-exporting countries which received, according to Mr Cheysson, about 70-80 billion dollars additional in 1974—10 to 15 billion dollars from the third world and 60 to 70 from the industrialised world.

Instead of being alarmed by this turn in international affairs, Mr Cheysson struck an optimistic note. He said: "Developing countries when they stand together for a certain power, can build up strength and bring about some degree of equality between industrialised countries and developing countries. We have to accept it and I frankly welcome it". At the same time, he welcomed the decisions taken by the United Nations and the International Monetary Fund to ease the world payments situation. In order to turn the present world situation into an opportunity of speedy development of poor countries, he recommended the capital flow from the oil-producing countries and the technical know-how from the industrialised countries to be married for the establishment of industrial plants in the developing countries.

Mr Cheysson also dilated upon the measures taken by the EEC to ensure "nominal return on exports of primary products". Citing the specific example of Ghana, he said: "Should Ghana in 1978 get less for its cocoa sales to Europe than the average of the three previous years, we undertake to pay the difference." In the new economic order, he saw the oil problem as an offshoot of the problem of raw materials and commodities. Added Mr Cheysson: "All of us have to join forces to come to a better deal on raw mate-

rials and commodities; this in my view one of the most important aspects of this new economic order." And he said that the extension of the Generalised System of Preferences (GSP) was an attempt by the EEC to allow the import of the maximum number of commodities duty-free.

An erroneous impression had however gained ground recently that all oil-exporting countries had piled up huge reserves of petrodollars. The fact to be noted was that most of the oil-exporting countries belonged to the category of developing countries and some of them had "relatively large domestic economies" which they were anxious to develop with the newly-gained wealth. To this category belonged Indonesia, Algeria and Nigeria. These countries had stepped up their imports with the result that their reserves were not

growing at the same pace as those of such countries as Saudi Arabia which had hardly any plans of economic development. Among the oil-exporting countries, Iran had in fact taken a lead in importing plants and machinery so as to hasten the development of its economy. It had also made it clear to the oil-exporting countries that it would not join another embargo on the supply of oil to developed countries because it did not believe in playing politics with oil and was anxious to use the petrodollars for setting up productive machinery. The Shah of Iran is reported to have stated recently: "We need up to the last cent of the money which comes from oil". The constructive approach of Iran, Indonesia, Algeria and Nigeria may ultimately result in a cooperative effort to make the most of the oil resources.

## Indo-Pakistan trade

THE KEENNESS with which the trade protocol signed between India and Pakistan in November last is being followed up augurs well for the normalisation of relations between the two countries. This process, initiated with the historic Simla talks between Mrs Indira Gandhi and Mr Z. A. Bhutto nearly three years ago, after the Bangladesh conflict, indeed, made a very slow progress till about the middle of last year. But since then the frequency of meetings between the representatives of the two countries has increased a great deal, even though the exchange of envoys has yet to take place.

As envisaged in the protocol, the two countries signed last month, more or less according to schedule, a formal trade agreement. Initially, this agreement is for one year, but would be extended automatically for two more years, unless terminated by either country on giving three months' notice before the end of the first year. Accord had been reached on the restoration of postal, travel and telecommunication facilities between the two countries even prior to the signing of the trade protocol. A few weeks ago, shipping arrangements were also

finalised and restrictions on the operation of shipping services carrying cargo between Indian and Pakistani ports were withdrawn with effect from February 1. The shipping services are to be resumed from February 15 and vessels of either country and their crew and cargo will enjoy most favoured nation treatment regarding entry, stay, loading or unloading of cargo and leaving of ports. Parleys on the resumption of rail and road traffic too are expected to take place soon. Along with the finalisation of the trade agreement, banking arrangements have been decided upon. To begin with, the trade between the two countries is to be financed through the State Bank of India and the Bank of Pakistan. The possibility of the other banks being brought into the picture in the near future, of course, is not ruled out.

Already good progress is being made in regard to actual business transactions. Following the visit of a cotton delegation from here to Pakistan and the last month's sojourn to Islamabad by our commerce secretary, Mr Y.T. Shah for signing the trade agreement, a Pakistan delegation has just visited this country and finalised the details of a deal involving the supply to this country of 200,000 bales of raw cotton valued at Rs 25 crores. This cotton is intended to be used by Indian mills for export production. Besides raw cotton, we have shown

interest in importing coarse varieties of rice. Pakistan is said to be having a sizeable surplus of this commodity.

Another delegation from Pakistan is expected to visit us towards the close of March or in early April to assess the possibilities of purchasing from us various other items listed in the trade protocol. These include engineering goods, jute manufactures, iron ore, railway equipment and tea. Pakistan is understood to be keenly interested for the time being in importing from here jute manufactures, railway equipment and tea. As regards iron ore, only small imports are envisaged at present for analysis purpose to find out whether our iron ore would suit for the steel manufacturing complex being established in Pakistan.

As stipulated in the protocol, trade transactions in the immediate future are to be confined to the state agencies. Trade on private account is not being opened up for the time being as the two countries desire to give a definite direction to trade relations which are being resumed after nearly a decade.

But government-to-government trade does not imply that it is to be balanced. Significantly enough, this trade is to be carried on in freely convertible currencies within the framework of the foreign exchange regulations in force from time to time in each country. The two countries also are to accord to each other the "most favoured nation" treatment in accordance of the provisions of the General Agreement on Trade and Tariffs (GATT).

In the initial stages, Indo-Pakistan trade, of course, may not be very substantial as the list of commodities to be traded in is heavily weighted in our favour. But surely, a host of other items can be identified in course of time as Pakistan has sizeable capacities to produce several items which it used to export till 1971 to Bangladesh, then its own eastern wing, and we too have developed competence in the manufacture of a wide variety of goods—consumer products as well as capital goods. Already, besides the items listed in the protocol, Pakistan has shown interest in our coal and automobiles parts and components. The

freight advantage which the two countries have in trading with each other is of particular significance. This can help expand Indo-Pakistan trade a great deal. Before trade relations were snapped in 1965, we used to export to Pakistan goods worth over Rs 12 crores. Our imports from there were of the order of Rs 2/3 crores. But the two countries have progressed substantially since then and are in a position to exchange a large number of goods.

Incidentally, two important items of export from here to Pakistan—betel leaves and nuts—and one item of export from Pakistan to us—rock salt—are not being traded in for the time being. The trade in these commodities used to be quite sizeable before 1965. It can still be substantial once it is decided to include them in the list of tradeable commodities. The omission of betel leaves and nuts is said to have its genesis in the controversy raging in Pakistan on whether to allow the "pan" eating habit to grow or not. As regards rock salt, perhaps Pakistan intends to restrict its use by its chemical industries.

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# FROM THE CAPITAL'S CORRIDORS

R. C. Ummat

## Steel and Copper Production • Indo-Australian Economic Cooperation • EEC's GSP

The significant developments have taken place in the past few days which will have a very vital bearing on our import programme next year. These are the commissioning of the copper smelter at Khetri and the expediting of the conversion of pig iron into steel at Bokaro. While the commissioning of the Khetri smelter early this week is anticipated to yield 2,000 tonnes of copper by the end of the current financial year, the expediting of the conversion of pig iron into steel at Bokaro may yield 30,000 tonnes of slabs by the end of March.

### Increased outputs

The outputs of the two units are expected to go up considerably during the next financial year — that of the Khetri project to about 8,000 tonnes of copper and that of Bokaro to at least 400,000 tonnes of steel. This will help in substantially reducing the imports of both copper and steel. According to the indications available, imports of steel are envisaged to be reduced by one-third from the current year's level of nearly a million tonnes. If the Khetri project is able to produce next year 8,000 tonnes of copper, and there is some improvement in the output at the Ghatsila smelter, as is anticipated following somewhat improved power supply position in east India, copper imports may go down by about 15 per cent. Currently, we import about 55,000 tonnes of copper annually. The above estimates of curtailment of imports of both steel and copper take into account the likely increases in the requirements of the two metals.

Firm indications are now available of the production of finished steel during the current financial year exceeding even 5.5 million tonnes, the level estimated a few days ago. Besides the additional output expected from Bokaro, the encouraging trends at the other integrated steel plants in January have been responsible for the

upward revision in the overall production estimate.

As a result of the improvement in the availability of coal — thanks to the special effort made by Bharat Coking Coal Limited to increase production of coking coal, Bhilai's initial success in using during the last two months lower grades of coal to the extent of nearly 30,000 per month, and railways being able to provide adequate wagons — coal stocks with the integrated steel plants are understood to have shown sizeable increase during the last month. Currently, on an average, they amount to six days' consumption of the various steel plants, as against four or five days' requirements in December.

With a view to enabling the coal industry to generate resources for investment in the next four years, the union government is understood to be considering increase in coal prices. It is feared that adequate resources may not be available for the development of coal industry.

The Australian minister for overseas trade, Mr Frank Crean, who was here last week for discussions with the government of India on Indo-Australian economic cooperation and trade matters, assured newsmen in an informal talk that his government would adhere to the liberal policy adopted by it a couple of years ago in respect of imports from the developing nations under the Generalised Scheme of Preferences (GSP). The restrictions imposed on imports of cotton textiles and footwear, he explained, did not amount to the abandoning of the above scheme. They were not any new restrictions. What had happened was that the interpretation of the above scheme had been standardised with a view to curbing the inflow of inferior goods from countries other than India. Australia, he stressed, was not retreating from liberal trade policy towards the

developing nations despite increase in unemployment there.

India's exports to Australia, Mr Crean contended, were not much affected by the term handicrafts. This view, however, is not shared by the government of India, which feels that higher Australian tariffs on coarser and heavier varieties of cotton textiles, compared with those on the finer varieties, would definitely affect our interest. This fact is understood to have been brought to the notice of Mr Crean by our Commerce minister, Prof. D. P. Chattopadhyaya.

Referring to iron ore exports, Mr Crean observed that the views of his government were practically identical to those of the government of India on the formation of an association of iron ore exporting countries. Neither the government of Australia nor the government of India, he pointed out, wanted the proposed association of iron ore producers to take the form of the organisation of petroleum exporting countries. Both were interested in better prices for their iron ore through consultations among the producers and consumers.

### aid for woollens

Mr Crean disclosed that Australia had offered assistance for improving our woollen industry. A joint project had been proposed for this purpose. Australia would make available both wool and technical assistance for this project which would help our country in becoming a major exporter of woollen garments and textiles. The project is understood to have been approved by the Commerce ministry. It is now awaiting clearance from the union cabinet.

According to the joint communique issued at the end of the Mr Crean's visit, an Indo-Australian trade agreement is expected to be signed by June next, providing for a good deal of expansion of trade between the two countries. Our government, it is learnt, has also shown interest in importing fertilizers from Australia. Concrete shape to this

proposal, however, is expected to be given in a couple of years when the Broken Hill Phosphate plant in Queensland goes into production. Currently, Mr Crean stated, there were no surplus supplies available in his country.

The director-general of external relations of the European Economic Community (EEC), Mr P. Cecchini, who was here early this week for a two-day seminar on Indo-EEC trade under the generalised scheme of preferences — the seminar was sponsored by the union Commerce ministry and the Indian Institute of Foreign Trade — has indicated that the GSP of the EEC for the next year would be ready by the end of May for presentation of the Community's council of ministers. While not ruling out some improvements over the scheme for the current year, he, however, cautioned against any significant changes in view of the threatened global recession and the sea-change in the economic conditions of the EEC countries following the oil crisis. The EEC countries, he stressed, were not only facing a slowdown in their growth rate but were also confronted with the problem of absorbing a high rate of inflation. They had to maintain a reasonable degree of new investments to prevent any fall in employment, leading to lower rates of consumption. In such a situation, some readjustments in GSP were possible but to press for a higher degree of liberalisation could be expected to create psychological difficulties.

Mr Cecchini found the Indian suggestion for extending the period of GSP operation from yearly basis to three years at a time as interesting, but opined that the implications of this would have to be thoroughly gone into. In view of the uncertain trends in global prices, the extension of the GSP operation from yearly to three-year periods, he observed, might even erode some of the benefits flowing from the scheme to the developing countries.

Referring to the plea of developing countries for increased assistance from the EEC so as to enable them to keep up the tempo of economic activity, the director-general of external relations of the EEC expressed the view that any special accommodation might not be possible from the Community since the Community itself had been hard hit by the energy crisis. The problems arising out of the oil crisis, he added, could not be solved by the generalised scheme of preferences. He preferred a tripartite cooperation between the EEC, the oil producing countries and the developing countries to make use of the surplus funds available with the oil producing countries.

# Save with grace

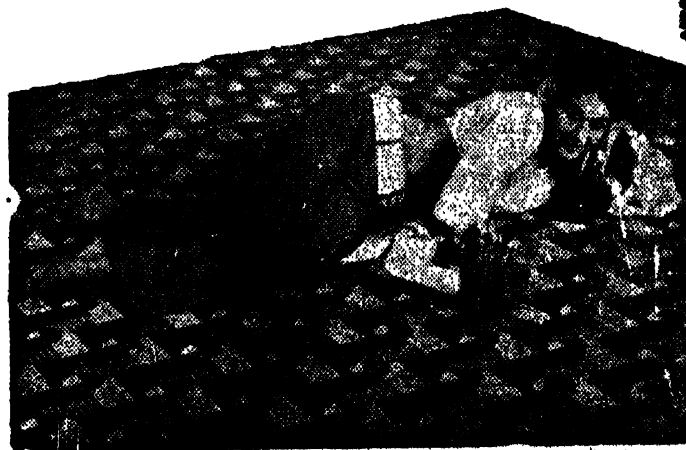
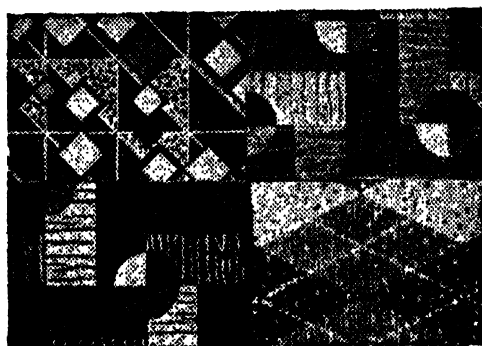
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# Industrial collaboration with OPEC

J. R. D. Tata

THERE IS obviously no simple solution to the complex problems we face in the world today — in this new world order as so rightly described by Mr Cheysson — a description reinforced by Mr Haksar's statement that one of the tasks before us is to clear away the debris of the past. Every country has been affected in some way by the present crisis, a remarkable feature of which, as Mr Cheysson said in his admirable speech, was that in one respect it has brought equal distress to the industrially affluent world as to the poorer, developing countries such as ours.

I should like to deal with the problem from India's point of view and to look for solution which, while they are in the interests of India, will also fit into pattern of world cooperation, so essential to a global solution.

### continuous efforts

As Mr Haksar has said since the first World War, there have been continuous efforts in the world to find ways of co-operation in the economic and financial fields in order that we may find a way to live and prosper together. These efforts have failed up to now and the present crisis makes clear the need for a new approach. Now for a country such as ours it is obvious that whatever the causes of the crisis, the main task for many years remains a struggle against poverty. It is not perhaps realised that even if even if we were most miraculously to achieve a nine per cent rate of economic growth year after year for the next 25 years, by the year 2000 we will still achieve a per capita income of only about \$600, a figure already exceeded today by a number of developing countries.

This is a measure of the task before us. No wonder that Mr da Costa should talk about the need for some compassion towards a country such as ours. While in the short term this might help us solve immediate problems, we cannot and should not expect or look to compassionate solutions to our problems in the long run. Certainly assistance of the kind already an-

The second International Seminar of Economic Journalists was held in the capital from January 22 to January 28, under the auspices of the Forum of the Financial Writers, New Delhi. We reproduced the views of some of the participants in our issue of January 31, here we reproduce the views of some more participants of the seminar. The last instalment in the series will appear in our issue of February 14.

nounced or hinted at by countries such as Iran and other friendly countries will be of vital help to India and we are deeply grateful to them for such an approach inspired by a genuine desire to help us and other developing countries against the impact of high oil prices. But it is clear that we can rely on this approach only for solving our transitional problems.

We must also remember that unlike the kind of long term aid we have had from the World Bank, the US government, or the USSR in the past, what we are now promised is really short term aid. The loans or credits we may obtain directly from OPEC countries or through institutions like the IMF, will have to be repaid over a period of seven or 10 years. However valuable these loans may be and however grateful we may be for them, they will impose on India the essential need to generate the resources necessary to repay them. In other words, the problem for India is going to be one largely of the problem of creating exportable surpluses, a difficult task for a country such as ours, in which, with rare exceptions, shortages exist in most of the products that could be exported.

Unless we can create additional exportable surpluses increased exports can only be made at the sacrifice of local consumption. For instance, exports of sugar in the last few years have been enormously helpful to our balance of payments, particularly in the last year. But let us realis-

that it has been possible only because the people of India cannot afford to consume all the sugar they need.

So larger exports of consumer commodities or products will involve us in a continuous balancing act between depriving our own people and meeting the needs of exports to surmount our balance of payment difficulties. Not only must we establish export surpluses quickly but we must do so on a very substantial scale. Otherwise, how will we meet our heavy debt liabilities? Our foreign aid liabilities are so heavy that even today any new aid received is used mainly to repay the debts of the past and there is little left to finance development.

India has never defaulted in the past and will not default in the future. Therefore the new situation that exists today in this new world order presents for us a combination of both serious dangers and limitations as also great opportunities.

### no glamour exports

India has the serious disability, compared to many other countries, in that it has no glamour exports, no oil, no copper, no huge surpluses of vegetable oils. The exportable surpluses we must create will have to consist largely of industrial or semi-industrial products of the kind that other countries do not produce at all or sufficiently to meet all their needs.

Coming to brass tacks, I feel that solutions to our specific problems must be looked for not so much in discussions at conferences, but in focusing efforts on identifying projects which can form the basis of meeting the need both of ourselves and that of other countries with whom we seek to collaborate to our mutual benefits. We must, in other words, identify areas in which we can create the surpluses with the help of those who are in need of them.

It seems clear to me that in a country such as ours, where investible resources are so limited and so much of them must

be devoted in the coming years to the rehabilitation and large scale expansion of our agricultural and agro-based industries and to meeting infrastructural needs such as power and transport, we just will not have the resources to undertake on our own the expansion of our manufacturing industries on the scale required to produce the large exports we need to survive. Therefore, there is no escape from the fact that we must find sources abroad for financing such expansion.

## political objections

I know that there will be political and other objections raised against large scale foreign investments. But the need to raise fresh resources is so imperative, if we are to develop exportable surpluses, that we must overcome the objections. Assuming this is done, where should we look for such foreign resources of investment? It seems to me that, in view of the massive transfer of wealth which is taking place to OPEC countries and of their own development needs for the years to come, it will be in trade and collaboration arrangements with the oil producing countries that the greatest potentialities will exist for a mutually beneficial network of industries to be established.

Amongst the products to consider as being the most likely to match their needs with our proved capacity to produce need not necessarily be highly sophisticated products or equipment of very large size. As Mr Krishnamurthy has pointed out, the advanced industrial world has gone in for the production of very sophisticated and very large sized electrical equipment. I believe that in the development of OPEC countries of Africa and the Middle-East, there will be a greater need for simple, sturdy and middle sized equipment which India itself is currently using.

Leaving the field of electrical machinery, which is quite outside mine and which Mr Krishnamurthy has covered very adequately, let me try to identify other new products or projects.

A large number of textile mills are being established in OPEC countries, Africa and the Middle-East. India makes excellent textile machinery, which is the cheapest in the world. The bulk of its own large textile industry is equipped with its own machinery. To my mind, this is one possible field of collaboration.

India makes many other forms of

machinery which are being exported even today to many countries of the world, including the industrialised ones. We may have failed in many things that should have been done in the last 25 years, but one thing we have achieved is a very large diversification of our industrial infrastructure. In chemical plants for instance, we have not only created substantial manufacturing capacity, but we have also developed considerable expertise and the technical know-how both at the top management level and also in what, in military terms would be called, the important NCO level.

We have talked of sugar. Apart from sugar, what about meat? This may raise certain socio-religious problems in the country, but they have to be overcome. Africa, Arab and other Middle-East countries are large consumers of meat. India has, perhaps, the largest cattle population in the world and may there not be potentialities for establishing meat packaging plants and for cattle breeding on a large scale on some form of cooperative basis? There is, I think, in India, a real potential in sharing its cattle wealth.

Allied to cattle is leather. There will be a growing demand from the OPEC countries and from African countries for leather and leather goods. India is a country which can create a very considerable exportable surplus in leather goods, in cooperation with our friends in these countries where these will be sold.

## considerable strides

There is refrigeration. India has made considerable strides in the field of refrigeration. There is practically no aspect of refrigeration and airconditioning, large and small, water cooling etc., which India is not capable of producing. But it has not got the capacity today for large exportable surpluses of such equipment. Considering that most of the areas in the Middle-East have a climate which makes refrigeration and airconditioning essential to modern living, is there not a field here where we could jointly investigate the possibility of creating, rapidly, a much larger production capacity for such equipment than we now have today?

There are also certain industries some of which could be established in our country and some of them in our friends' countries or, perhaps, in both. Take, for instance, iron pellets. We

know that, almost every country in the world feels that possession of a steel plant is an essential criterion of its own status and industrial independence. Sometimes it goes beyond what is reasonable or economically sensible. But there is undoubtedly a considerable development in the world today of steel being made on a small scale and quite viably—what we have been calling in our country "mini-steel plants". The only problem here is power and power will be no problem in those countries which have oil. We have the expertise in this country to build such plants. It may be that we have a contribution to make in return for financial assistance from our friends in the OPEC countries.

## building boom

Then take cement plants. We have a large cement industry in this country that could have been much larger today had it not been for certain price policies that our government found it necessary to impose. In the developing areas; of Africa and the Middle-East there is going to be a tremendous amount of building activity. No building programme of any kind is possible without very large quantities of cement. I think that India might, in collaboration with other countries, either in the public or private sectors, quickly establish cement plants both in India and abroad for supplying the growing needs of the Middle-East and Africa.

In the case of heavy chemicals, particularly caustic soda and soda ash in which India has perhaps the best expertise in the world the capacity to design, operate and service such plants. I believe that oil producing countries will want to concentrate to some extent on the development of chemical industries. Here again India could, perhaps, help them as well as be helped by them in the growth of the chemical industry in this part of the world. The same would apply to the fertilizer industry.

India has enormous resources in iron ore. Till now the talk has been merely on exporting large quantities of iron ore, to Japan particularly, but also to other countries. It may be that, instead of exporting iron ore, the more profitable thing would be to turn it into pellets or sponge iron before it is converted into steel. One problem there is that it would need oil or gas or coal. Therefore such plants could be established in countries that have oil. A combination of Indian iron ore

## POINTS OF VIEW

and the fuel of those countries could be joined together in some collaborative arrangement to create steel capacity abroad.

India has vast bauxite resources. The trouble with aluminium is that, if you go beyond the alumina stage, you need a very large quantity of electric power of which there is a shortage in our country. It may be that bauxite deposits of India could be turned into alumina in our country and transferred to those countries that have fuel — where they will naturally have no power problem — to be turned into aluminium. In some cases even aluminium plants could be established in our own country with captive power plants as joint enterprises.

### export of know-how

Apart from these products, there is also the question of know-how, management and manpower. Take, for instance, construction activities. In African and Arab countries, as I have said earlier, there is going to be a tremendous amount of construction of all kinds, public buildings, dams, bridges, office buildings and so on. There is almost no limit to the constructional activity that will take place. This will require not only cement and steel, but also engineering skills, at the designing stage and in the field. It will also need considerable trained personnel. For those countries that do not have enough personnel of that kind, India can provide technicians and trained personnel for construction activity.

There are other items such as trucks, for instance. It may not be known to many that India exports already a substantial number of trucks, some of them assembled abroad. Indian trucks often happen to be more suitable than the trucks supplied by more advanced countries because, while the latter are most suitable for smooth roads, ours are sturdier and made specifically to operate on rough roads and most of the rural roads in this region are rough. I don't know whether other countries are familiar with this, but we in our country have a problem of overloading. There is an incredible amount of overloading of trucks in this country, and the trucks built in India, including that by the firm with which I am connected, are specifically built for such overloading!

Similarly, in railway equipments, coach building and many other industries, there should be opportunities for collaboration and for meeting each other's needs. By

such means I do sincerely believe that apart from soft loans, aid and compassion, our friends of the OPEC countries, without having to pay a higher price for their needs, could help India and other developing countries in the setting up of such industrial capacity in their own and other countries in preference to doing so in collaboration with more advanced countries.

For such a programme of collaborative enterprise to fructify there will need to be some changes in our own government thinking. Until now our government and the very able but somewhat cumbersome bureaucracy they have created have tended to make collaboration agreements, foreign investments, new investments and installation of new plants a very difficult and time consuming matter. I hope that in the crisis that we face today, and that we will have to face for many years to come, we will realise the need in such matters for quick decisions, simplification of procedure and the acceptance of the principle that foreign investment of the right type under reasonable control and conditions will not only be not harmful to our country but essential to its rapid economic development.

For the last few years we have been

faced with a resources gap of Eric da Costa's magic figure of about one billion dollars. With the rise in the prices of oil, fertilisers and other commodities, we need approximately another one billion dollars.

Therefore, the main thrust of my suggestions or of my theme is that there is no escape from the need to invite additional investments to our country. If we receive oil on credit, that oil by itself will not create new assets, will not create new industries. It will help us to produce more but it will be consumed in the process. Surely a better long-term solution will lie in the creation of new productive assets not only for satisfying our own needs but for producing exportable surpluses required to meet the additional cost of oil and other essential commodities that we have to import.

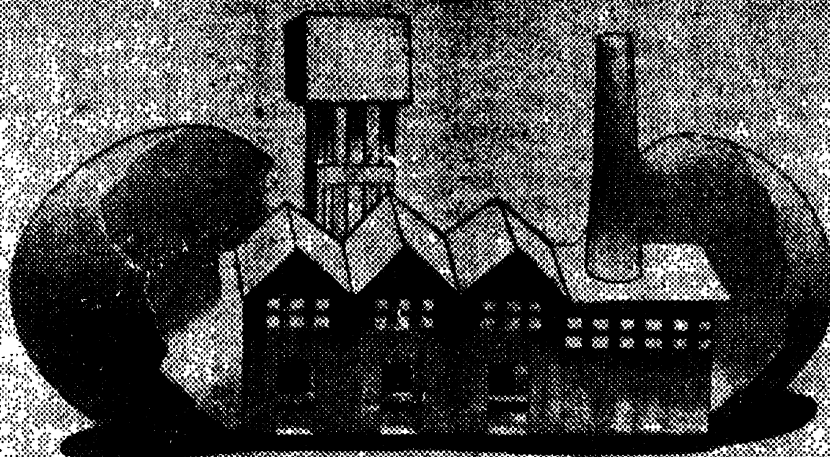
As I see it, the best possible source of that kind of additional resources is in collaboration arrangements with our friends in the Middle-East and other parts of the world who are fortunate possessors of great financial resources, to which our resources in material, men and in technology can be married to the benefit of both.

## Eastern Economist Annual Number 1975

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# Correcting the international economic disequilibrium

Y. B. Chavan

TO ANY observer of the world economic scene, it is quite obvious that an unprecedented economic crisis is enveloping the world. Its impact may vary from country to country and continent to continent. For some, it threatens the expectations of unending affluence; for others, it endangers even the reasonable aspirations for improvement in their lot. It may be tempting to believe that the crisis is acute only for the industrialised countries with their enormous requirements of energy. It might also be argued that some countries which are fortunate in being nearly self-sufficient in their requirement of energy, are immune to the crisis. Some countries may try to buy immunity in the short run by resort to protectionist practices, but in this way lies no solution. In fact, here may lie seeds of instability and threat to international peace and order. We have long talked of the indivisibility of peace but in today's context global interdependence has become a more vivid reality than at any time in history and the global problem requires a global solution.

## historical perspective

Looking at today's economic problems in the perspective of history, one cannot but wonder whether the world is not facing the consequences of having ignored the logic of global inter-dependence in the past. Perhaps the economic crisis of today might not have been so severe if the world economic order had not been distorted by the forces of colonialism and imperialism, further aggravated in recent years by the compulsions of cold war. The same process of distortion of the world economy, as a whole, was accentuated when the price structures of manufactured goods were allowed to outstrip by a wide margin the benefits accruing to the producers of raw materials, resulting in widening the chasm between the developed and the developing nations.

Even before the energy crisis, there was a heightened awareness that the environment which we need for physical survival of the human species on this planet was being dangerously polluted.

We were also beginning to be aware that we were fast plundering the reservoir of resources—most finite and non-renewable to be sure—that mankind requires for its continued well-being and growth. The energy crisis has merely underlined this fact of life.

## political interdependence

We recognise that we cannot undo overnight the imbalances created by the concentration of industrial, technological and monetary advantages of the past. But it would be relevant to take to heart the lesson that even in this era of sophisticated technology and multiplicity of material requirements, of galloping energy needs and gigantism in production units and markets, we would ignore at our common peril the logic of world-wide political inter-dependence.

At this stage, I would like to sound a note of caution. A major problem before the world in 1975 will be to ensure that the legitimate concern with economic order and maintenance of a healthy structure of international payments does not unwittingly lead us into a major slump in economic activity. There are indications that some of the developed countries are considering measures to restrict their trade to control the growing balance of payments difficulties. The resulting restrictionist environment for world trade is bound to have serious detrimental effect on the growth of output and employment. In this eventuality, the first casualty will be the exports of developing countries. According to reliable projections, the non-oil producing developing countries will show a balance of payments deficit of \$ 21 billions in 1974 as against \$ 8 billions in 1973.

The massive burden imposed on these countries by higher prices of fuel, fertilisers and food will be evident from the fact that the deterioration in their balance of payments in 1974 is far in excess of the estimated flow by \$ 9.4 billions of the official development assistance from the OECD countries. Any attempt at re-structuring the

world economic system will have to pay adequate attention to the problem of the countries which have come to be known as most seriously affected developing countries. There is no doubt that recycling of petro-dollars has a useful role to play in smoothening the process of adjustment to new realities, but the problems of today require a truly global approach.

It will be necessary to avoid the beaten track of investment in short term deposits in old financial capitals or real estate purchases and equity participation in the multi-national corporations. In fact, we may now have an opportunity, as never before, to combine the most economic use of world technology and resources with the demands of international social justice. Whatever machinery is created for re-cycling of the petro-dollars, rational as well as economic considerations point to a much bigger investment and flow of funds to the under-developed world.

## urges and aspirations

Naturally, the blueprint for the marriage of technology, skills and financial resources should be prepared under the auspices of such forum which truly represents the urges and aspirations of the developing nations and is not weighted in favour of the old vested interests. The forum of non-aligned countries is perhaps the most appropriate one since a majority of developing countries and oil-producing countries are non-aligned. Apart from enabling the developing countries to tide over the current economic crisis, this will also strengthen the solidarity of the non-aligned movement and promote economic cooperation among developing nations.

We in India have never stood for international confrontation, be it on the economic or political plane. Our constant endeavour has been of cooperation and search towards practical steps to correct the international economic disequilibrium. In the present situation, there is a great potential for bilateral and multilateral cooperation marrying financial resources and advanced technology with the skilled



manpower, natural resources and the industrial base available in India. I can, therefore, say with confidence that India would be a dedicated partner in any design which may emerge from the logic of enlightened global inter-dependence.

The challenge before us is to sustain the momentum of economic development over a wide field and to do so in a manner which avoids the extreme of confrontation between the hyper-affluent and the desperate poor. I repeat

it is a truly global problem, and with enlightened self-interest, I hope, it will be possible for the world to devise ways and means of transforming the crisis of today into an opportunity for bringing about a more just and stable economic order.

# Neutralising the high cost of oil imports

H. T. Parekh

THE HISTORY of flows of external capital shows that they have gone through various vicissitudes, depending upon the industrial development of a country, its external balance position, its surplus of savings, stability of exchange rates development of institutions to mobilise and transfer capital and general confidence in international lending.

If we take only the last hundred years of external capital flows, it would be found that capital outflows in the last quarter of the nineteenth century were mainly those from colonial countries (the UK, France and Germany) to their colonies. Such flow took place very often on a government loan basis when the colonies floated loans, particularly on the UK capital market. Second, large corporate enterprises in the UK, France and Germany often invested vast funds in their colonies, particularly African colonies, to develop their raw material sources. Institutional investment of capital, through banks and insurance companies, was still limited and it was left to corporate enterprises in developed countries to raise resources in their home countries and to invest them in the colonies. There was little need for setting up joint enterprises in the colonies since companies in colonial countries could open branches, or at worst wholly-owned subsidiaries to exploit the raw material sources; portfolio investment, therefore, in enterprises was limited.

## loss of colonies

The World War I gave rise to two factors which affected seriously international capital flows. First, it almost wiped out the foreign credit which the UK, had built up. Germany lost its colonies. Moreover, many countries in Europe, particularly Russia, refused to honour, in the post-first World War period, the pre-war debts of their earlier govern-

ments. Second, the period after 1918 was marked by considerable economic instability. The UK went back in 1925 to the gold standard at the old parity rate of exchange, only to withdraw from it in 1931. The United States had a major economic depression in 1929, which spread to other advanced countries, making for large unemployment (and little ability or willingness to make international loans) in these countries. The USSR in a small way, made international loans for political reason—to Turkey. Germany tried to reflate its economy by resort to armaments and to bilateral barter deals.

## economic instability

The whole period of 1918-1939 was marked both by currency and economic instability. At the same time, institutional financing increased through banks and insurance companies and, to some extent, portfolio investment began to be developed. The United States began to invest in Canada and in Latin American countries. Overall, however, the free flow of capital which one noticed between 1875 and 1914 was almost non-existent during the period 1918 to 1939.

The post-second-World-War period, unlike the post-first World War period, saw a major movement towards better economic management and greater economic and currency stability till almost 1970. First, the allied governments set up the International Monetary Fund to make for stability in currency values, and the International Bank for Reconstruction and Development to provide capital funds for development on an international basis. Second, many governments emerged as givers of foreign aid, mostly on a bilateral basis. Third, with greater confidence in economic and currency

stability and with greater nationalism on the part of newly independent countries, joint enterprise (as distinct from branches and wholly-owned subsidiaries) became the more favoured form of corporate investment across international borders, and institutional agencies began to take on active interest in investment outside their countries, whenever freely permitted.

## large capital flows

Under this dispensation, large capital flows took place across national borders. First, capital has flowed within the group of advanced countries, for example, among the USA and the UK, France, West Germany and Canada. Even in those advanced countries there have been bouts of nationalist fervour and, for example, both France and Canada have resented the encroachment of foreign, particularly the US capital, in their national economies. Japan whose industrial structure was destroyed in the second World War, managed, by a policy of nationalism, to keep out foreign capital, except on a portfolio basis. Second, large transfers of capital, mostly on government to government basis, have taken place from the advanced countries to developing countries.

The number of countries making such transfers has increased to cover the earlier vanquished countries such as West Germany and Japan: moreover, the Soviet bloc of countries has also begun to emerge as a supplier of capital, though on a limited basis and very often on consideration of their international policy. Beginning at a small level, the amount of aid flow has increased rapidly and is now estimated at about \$11 billion. Of this, about 20 per cent is provided by the World Bank, almost 70 per cent by the advanced countries,

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and about 10 per cent by the Soviet bloc countries.

In the last four years the whole situation has undergone a major change. The era of price and currency stability disappeared in 1970-71. Advanced countries are subject to inflation rates which now vary between 12 to 18 per cent per year, and most of them have now adopted floating rates of exchange, adding one more hazard to international transfer of capital. Many countries also suffer from balance of payments difficulties, with the result that they have tried either to tie aid to purchases within their own country or to reduce the flow of their aid. Restrictions on transfer of capital, particularly in the United States, have led to the emergence of an entirely different phase, namely, the Euro-dollar and the Euro-currency market.

### a new dimension

To this situation, a new dimension has been added by the oil crisis; oil prices have risen four-fold. Since in advanced countries oil enters both individual and industrial consumption, their expenditure on oil imports has increased correspondingly, without bringing about any reduction in their oil bill. This has created an apparent large balance of payments problem for these countries as also for developing countries.

One consequence of this development has been that income-transfer has taken place to a small group of oil-producing countries. Some of these oil-producing countries, such as Nigeria and Indonesia, have large populations, and given their development needs, they would be able to absorb their oil surpluses in their development programmes. Iran has taken the course of using its additional oil revenues in armament purchase, in local development and in purchase of industrial and real property assets abroad. The less populated countries such as Saudi Arabia and Kuwait do not have these opportunities open to use their oil surpluses and these surpluses have, therefore, emerged as large liquidity problems for the developed countries.

The oil countries have still to build up a philosophy on international aid. Some of them have provided oil to developing countries on a deferred credit basis; this has not reduced, but only phased out and postponed over a period, the burden of the price increase. Many

countries, such as Kuwait, are also setting up institutional facilities to transfer a part of their oil surplus for aiding developing countries in Asia and Africa. Necessarily, it will take some time to build up institutional infrastructure and in the meantime, developing countries will have to put up with the burden of higher oil prices and temporary arrangements to finance the higher oil cost.

The brief review of international capital flow shows that, at different times in the past, different groups of countries have emerged as providers of capital on varying considerations. While in the past capital flows were on a free basis and were, in the case of industrial enterprises, of a self-financing character in that the investment led to an outflow of raw materials to service it. In more recent times much of international transfer of capital is on government-to-government basis and a large part of it is intended for development of local enterprise.

How does India stand in this international context? India has been a large borrower of capital abroad, partly from multi-national agencies such as the World Bank and partly on a bilateral basis from advanced western countries such as the USA, the UK, Germany and Japan. At one point of time in the early sixties, such capital inflows, on a net basis, almost neared one billion dollars. In addition, India has been receiving mostly project aid for specific large projects in the public sector from the Soviet bloc countries.

### declining aid

However, since the mid-sixties, the flow of capital has slowed down for two reasons. First, as various advanced countries have run into balance of payment difficulties or have become unhappy with India's foreign and economic policies, the amount of capital transfer from them to India has tended to decline. Second, repayments on the earlier borrowings made by India have already begun, with the result that a substantial part, at present almost 50 per cent of the gross capital inflow, is now used up to service past debts. For both these reasons, the actual volume of transfer of capital to India has remained at a relatively low level. The only bright spot in this situation is the continued willingness of the World Bank not only to maintain its operations in

India but to increase them under the new McNamara programme of sharply increasing the general role of the World Bank in international lending.

India has so far developed small oil reserves, and production from local sources hardly meets one-third of India's oil requirements. India, therefore, imports at present about 10 to 12 million tonnes of crude oil to meet its energy requirements, mostly for industrial energy and for production needs. While, in relation to international trade in oil India's requirements are small, but in relation to India's external trade and its balance of payments position, these are pretty high. The four-fold increase in the price of oil has increased India's imports bill by almost Rs 1,000 crores or 40 per cent of the pre-price-increase imports. India has tried to meet this problem in various ways, particularly by arranging deferred credit facilities with some oil producing countries and by borrowing from the International Oil Facility set up by IMF.

### intensified search

I can mention various factors which go to help India in meeting this problem—let me say not immediately but only in the long run. First, our oil exploration effort has been intensified and we have also allowed foreign capital to enter the field of oil exploration in off-shore areas.

In addition, India has entered into various bilateral contracts with the oil-exporting countries to develop giant projects in industry. Examples are export of Indian iron ore and pellets to the oil-producing countries for the manufacture of steel, export of cement for their construction programmes and export of bauxite or alumina for processing into aluminium.

India has also the opportunity to provide technical and other personnel to the oil-producing countries in developing their economies. India has a vast infrastructure of skilled and educated human beings which can be used to further international contacts and the industrial development of the oil-producing countries.

Finally, one must consider how far India's own resource position and industrial effort will be affected by these factors in international transfers of capital. It has to be recognised that India at present faces a severe resource constraint, both in the field of foreign currency resources and in the field of local currency



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resources. The constraints have been such as to put a severe limit on our own investment and development effort. However, it appears that to an extent the constraint of foreign capital is likely to be relieved. This optimism is based on the fact that the oil-producing countries have vast surplus of foreign exchange resources with their governments unlike in the advanced countries where such resources have to be collected through taxation or market borrowing in order to provide aid to developing countries. What is lacking in the oil-producing countries, therefore, is not the resources but the philosophy of development aid.

In both these respects, oil-producing countries are taking steps to build up rapidly their institutional infrastructure. It is known that these countries have been gradually working out a philosophy of providing aid to developing countries. Moreover, they are also setting up institutional agencies in various fields to process projects and determine the requirements of capital of the borrowing countries.

I would also like to mention that the burden on India of the increased oil price has to some extent been mitigated by

rising international prices for its own exports. The terms of trade, therefore, have not moved against India as much as the mechanical increase in the price of oil might seem to indicate. India is able to get higher prices for its exports and this, to a partial extent, neutralises the higher cost of oil imports.

More important than this impact of price rise is the fact that such price rise has tended to make Indian manufactures much more competitive in the international markets. In the past the main charge against India was that it was setting up industries which were not competitive on an international basis. However, even in the past, because of development of local surplus and keen competition, India was able to export large quantities of manufactures—items such as steel pipes, wire ropes, textiles and so on. Our calculation of projects financed by ICICI shows that these projects exported in the year 1973 Rs 112 crores of manufactures to various destinations. This compares with the foreign currency loans of a few million dollars given to them by ICICI.

This is about the past. I am even more confident about the future, parti-

cularly in the light of the current prices and manufacturing cost trends in India and internationally. During the last two years ICICI has been making comparisons of costs of production of projects in India with international prices, to determine the international viability of these projects. These show that almost all projects financed by ICICI are now viable internationally, earning on an average an economic return of 20.3 per cent. The international price situation, therefore, has changed so radically that India cannot be accused today of setting up white elephants.

However, if we are to take advantage of this international viability of our local manufactures, then we have to realise that, as in the mid-sixties, we have to develop local surpluses for export purposes. At present, we are sparing some items such as cement for export only by denying local needs. This is not the best way to develop exports. It is much better if we increase our manufacturing capacity in internationally viable industries rapidly so that we are able to generate surpluses, after satisfying local needs, which would help to increase our exports.

# Wanted: right plans and priorities

Vinod Parekh

EVERY PHASE of a period has its own problems and projections and they look very difficult at times. But I frankly believe that more than the international monetary crisis which started three or four years ago, flouting rates of exchange, pollution problems and its effect on the supply and cost of a number of critical items and laterally aggravated by the high prices of crude oil, all make the situation complex as well as challenging. As if meeting the high cost of crude oil imports in India was not enough, we also had the additional burden this year of importing foodgrains and fertilizers on a large scale. This has no doubt caused a great strain on our balance of payments position. But I am glad to say that we have stood the test fairly well.

Our exports which were under Rs 2,000

crores only two years ago, will hopefully reach Rs 3000 crores this year showing a 50 per cent rise in just about two years. I think there is a great need in this country to boost exports and there is a plan and a programme for it and it is, in my view, quite capable of achievement, and, that is, to double our exports in the next four or five years. In fact, where do we look for these opportunities and how do we go about doubling our trade? Mention has been made elsewhere that these gains that India has made recently, have been more in the nature of the commodity boom and the inflationary pressures which the world has experienced. Well, I see nothing wrong in claiming higher prices for our goods if we have to pay higher prices for our imports. That apart, it is true that our exports have consisted of primary objects. Here again, I see no-

thing wrong in exporting primary commodities. After all, a dollar earned is a dollar earned whether we export sugar or we export sugar machinery and quite frankly may be that our chances of being able to increase our export of sugar are better than exporting sugar machinery.

I am, by no means trying to underplay the role of engineering goods and chemicals or the middle level technology. In a country such as India with the size of resources that we possess, our exports by their very nature, have to be diversified and if we decide to double our exports, we naturally have to advance on all fronts. At the same time I do not think that we wish to despoil exports of agricultural commodities or natural resources. Iron ore is one such case. Really if we are going to

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achieve the best results, we have got to find out where we are at an advantage with the rest of the world and how can we exploit these advantages to our best benefit. What is required really is modernisation of the exports of these natural commodities. For example, in the case of sugar we find that the standard of packing, as well as refining could be substantially improved and this would automatically give us a premium. We are unfortunately subject to sellers' market conditions in our internal trading and this somehow also reflects in our dealings in export. But if we apply some kind of modern thinking, then there are prospects of improving and adding value to the exports of our natural goods.

### value added prices

I think that exports of these goods for value added alone could give us another 3 to 4 crores of rupees easily in the next 2 or 3 years time. There are other by-products such as alcohol. A lot of molasses goes waste. However we are at the moment concluding a deal. There are many other by-products, which we could take advantage of. We have to use our own raw materials and process them and thereby again getting value added prices.

Leather altogether gives about Rs 150 crores mainly in the form of what we call semi-processed leather but it is really raw hides and skins and this could be turned into leather shoes, bags and so on and so forth, for which to my mind there are bright prospects. If we go about the right way, these exports of leather could rise by Rs 300-400 crores in the next three to four years.

There is already evidence of a growing volume of exports in finished leather, leather products and meat, particularly to the middle-east. There may be some susceptibilities to the thought of beef. But I see no reason why we cannot export mutton for which there is a very good market in the neighbouring countries. What is, therefore, required is to realise that there are a whole lot of possibilities and prospects. We have got to help the small and medium producers and encourage the spirit of entrepreneurs.

In the case of leather, not many inputs are required. It is a technology that we already possess. It is a question of put-

ting a few units together and getting on with the job.

In India we have a large number of trained engineers, architects, etc. Construction programmes are going on both in west-Asia and south-east Asia. This again could easily give us an exchange earning of Rs 200-300 crores. We could also think of setting up joint ventures. Some Indian companies have already set up textile mills and various other units in Africa and Asia.

There has been some talk of recession and we have not yet found any effect of this in terms of orders coming from the advanced countries. In my view, there is a very good market for consumer and departmental goods for which we could response to international tenders in western Europe and America. We have large markets waiting to be tapped amongst neighbours. In the oil-producing countries a number of projects are under way. In fact, we have dealt with selling sugar, cement and iron

ore etc. in the OPEC. We have the shipping companies, aluminium projects and the like. All kinds of proposals are coming forward from our neighbours in the middle east which have bright good prospects. Then we have the trade with the socialist bloc and the Soviet Union, which has grown enormously. This has a capacity to grow by another Rs 300 to 400 crores in the next year.

Apart from these markets, there is the question of relative stability that we have because of the bilateral nature of the dealings which are free from the vagaries of the other free foreign exchange areas.

I think the exports can be doubled in six years' time, and is within the realm of possibility. We have to achieve this by providing the right kind of infrastructure. There is the shortage of power and transport problems in the movement of iron ore, sugar, etc. What is perhaps not being sufficiently realised is the lack of port facilities. Our

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ports have not changed much in the last 20 years and if we are going to double the volume of our trade, we will obviously require immediately more ports with berthing, loading and unloading facilities. With the facilities available now, we can load at the rate of 1,000 tonnes. We should have facilities where we could really be able to load 10,000 tonnes per

day. I think our friends in Iran and Iraq also have same problem of port facilities.

The trade is suddenly going up very fast and the facilities are not adequate in order to meet the requirements of the growing volume of trade. But given the right kind of plans and priorities and the right kind of quick

decisions-making. I have no doubt that there are good prospects for increasing our exports. We will again see a further 25 per cent increase immediately in the next year partly by value addition and partly by inputs of new commodities. We are on the right track and given right plans and priorities, this target is within the realm of achievement.

# The price of iron ore

S. Ramachandaran

THE MINERAL industry has created a lot of sensitivity in the minds of developing countries mainly because of the fact that nowhere else do you find such a colonial pattern of trading as in the case of mineral resources. I was told by His Excellency the minister from Iran, who said: "we do not want to own India or even a piece of land in India." On the other hand, in mineral industry, we find that the developed countries have gone into the developing countries, as the developing countries were not able to afford the massive resources required for investment in mining, in extraction of metals, and the developed countries were able to make them captive sources of supply and give an artificial pricing pattern and and depress the prices over the last 50 or 60 years. This was an imperative necessity which we had to face.

## brief outline

Let me give you a brief outline of the iron ore industry both in India and the world. The production of steel in 1973, if I am not mistaken, was 696 million tonnes, and the prospect for steel production, in spite of the transient recession which we are facing today, is estimated by many international authorities including the IISI will be 1100 million tonnes by 1985. The two major producers of steel the USA and the USSR have a large supply of iron ore coming from within their own countries, and therefore, the overseas trade in iron ore is likely to develop from about 350 million tonnes at present to about 700 million tonnes in another ten years.

So far as India is concerned, iron ore is one of the commodities in which we have the benefit of long-term perspective planning. Today our plans for export are ready up to 1985; this is not the case in any other commodity. It is very

likely that iron ore might become the number one foreign exchange earner by 1980, unless we develop two million tonnes of sugar for export. I am sure that iron ore will still be number one exchange earner and with sugar it would compete by 1985. Therefore, it is quite necessary that we should have a perspective plan for our exports. But this plan has changed from time to time. According to our original fifth five-year Plan targets, we wanted to have 56 million tonnes of iron ore export. It was pruned down to 42 million tonnes and may undergo further changes. The main reason for pruning down the targets for iron ore export is not the lack of iron ore.

There is a popular fallacy in India that this is a wasting resource which we cannot afford to export. We must have a perspective plan in this matter for 100 or 200 years. We cannot really have the same thought or the same impression about iron ore as we have got for oil and coal. These resources are estimated to last for 30-40 years. There are prophets of doom everywhere who say that there will be no energy resources after 30 years, and by 2000 AD they would have depleted all the coal reserves. But, I am sure that new resources will be found from time to time and even oil resources may last for another hundred years.

So far as iron ore is concerned, the proven resources and the inferred resources in India which aggregate to 10,000 million tonnes should last for 200 to 300 years even at the present rate of depletion. There is no need to worry that by exporting more and more iron ore we will be dissipating the natural resources which will become necessary for the country's development later on. If we have a long-term perspective, as I have narrated above the export of 56

million tonnes by the end of the fifth Plan was not an unimaginative target. But we had to prune down because of non-availability of internal resources for developing the mines and the necessary infrastructure.

## huge investment

We know that a million tonnes of iron ore export will mean an investment of Rs 40 to 50 crores in production infrastructure, transportation development, port development and also if we rationally proceed, in the development of shipping. Therefore, if we want to have 56 million tonnes of iron ore export as against the present level of about 25 million tonnes we can imagine the requirement of additional internal resources. Iron ore is one of the commodities in which we do not require large amount of foreign exchange component at all because very little machinery is required and with a will we can manufacture that in India. What is needed is rupee investment and the returns which we should get from this.

Unfortunately, in our country, iron ore development has not been integrated to that extent, as in Australia or Brazil where we could have returns which are commensurate with the investment. For example, in India the railway freight is not related to what it would cost us to operate the railway line. We have a railway line from Bailadilla mines to Vizag. If this is operated by the Minerals and Metals Trading Corporation (MMTC), the cost would be much less as compared to the freight being charged now: we will certainly operate it much cheaper. This is happening in Australia and Brazil. That is why they find that the export of minerals is more profitable than that of other things.

In 1952 the iron ore export was at a loss

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and the government was subsidising it. It is only when in 1972 the prices increased, it was possible to reach the stage of break-even point and in 1974 we started making a marginal profit. The cost components in iron ore export are artificial. We are substantially losing by paying freight for iron ore to the port—to Paradip, Vizag or Goa or from Bellary-Hospet to Madras. All this is very uneconomic. The port charges are the highest in our country. In Australia it is 25 cents per ton; here in India it is more than two dollars in some cases. All the cost components are unreal and are not economic at all. In spite of it, we have reached the break-even point, because of the fact that labour is cheap. The production cost is much lower than in the highly-mechanised mines of Australia and Brazil.

### bright prospects

The outlook for iron ore is that there will be increase in overseas trade by about 350 million tonnes between now and 1985. We have to see whether we are going to have our due share of this as we are only proposing to develop our export from 25 million tonnes in 1974 to perhaps 35 million tonnes by the end of the current Plan period. I do not think that our targets are ambitious and unrealisable. In this matter, I would like to say that we are faltering in our policy in upgrading this product and beneficiating it. Everywhere the steel plants are anxious to choose the products they buy. They are no longer content with buying just the iron ore; they want higher grade iron ore, having some special characteristics.

More and more steel plants are going in for pellets as the main feedstock for production of steel. We know that when we pelletise, we have already fuel input in iron ore and the fuel consumption later is reduced thereby. Most of the steel plants are going in for 20-30 per cent of pellet feed. There is no need for us to hesitate about going in for more and more pellets. We should be exporting only about five million tonnes of pellets at best out of the 35 million tonnes targetted for 1978-79 of normal iron ore. We know that the economics of upgrading even to the pellet stage is 100 per cent more of the added value. In the case of many other minerals, a small amount of beneficiation will result in very

great added value. These are concepts which we should work upon. There were many doubts in the mind of the government of India about the possibility of making pellets and of getting returns commensurate with foreign exchange inputs required for producing pellets. Therefore, there has been a little slowing down in the pelletization programmes which was initiated as early as 1965 in this country.

I will now discuss the modality of cooperation which has developed between India and Iran in the iron ore industry. When Dr. Ansari was here to discuss the possibilities of investments in India, he came with a staggering amount of money in his pocket. I was sent for by the then Foreign minister, Mr Swaran Singh and was asked to state whether there was anything possible on the iron ore side. I told him about the two projects which we had just shelved because of lack of money. One of them was the Kudremukh project. I was pleasantly shocked at the reaction of Mr Ansari. He asked: "How much money do you want"? I had old estimate of 300 million dollars. He said: "Here is the money. Please sign the contract". It was as simple as that. There was no doubt in his mind about the possibility of developing the project. We were not questioned about the debt-equity ratio of the loan, and when the project cost went up, there was no hesitation in increasing the money. In the negotiations which have grown subsequently, I must say that we have seen an example of bilateral relationship which is most heart-warming.

### new lead

I know that there is a background for this in the original UNCTAD resolutions and setting up of such industries in the developing countries is annexure to UNCTAD document which says that the developed countries can give as a loan some money for industry in the developing countries and take back payments in the form of production of that industry and this is exactly what Iran has done in the case Kudremukh. I think they have given a lead to many other countries. We are just now considering a similar proposal from another oil-producing country and there are many other countries and I see a hope that many of the projects which we have shelved, will be revived because both for financing rupee expendi-

ture and foreign exchange expenditure the funds will be forthcoming. I will not be surprised if by the end of the current Plan period, we attain production of 56 million tonnes of ore and about 10 or 12 million tonnes of pellets.

I would also like to mention briefly about the price of iron ore. We know, all over the world, producers of natural resources are in a ferment. We have seen the result in the oil countries when the prices were depressed. They felt they were deprived of the money that was naturally due to them and the reaction has been very extreme. Of course, OPEC justified the price level and I wish we could also justify similar price level in iron ore that in case we would be certainly happier.

### special action

In any case, all countries have been trying to take some kind of special action to see that the prices of natural resources are improved. When multinational corporations invested in mineral resources they got a hold on the economy, they were only content with their own profits.

In late 1972 when the ex prime minister of Australia visited India, I had a meeting with him. He said, it did not matter so long as they made a couple of dollars profit. I said: "You get only 50 cents or 25 cents of royalty which you are levying while this kind of discovery has resulted in extreme action as in the case of the government which put a very heavy royalty of 25 per cent on the FOB value of potash. This is now so heavy a royalty that people are unable to export potash".

So the state interferes when their mineral resources are taken away by multi-national corporations who make 2 or 3 dollars profits. And when they make this profit, it is not in the country in which they produce the natural resources. The profit is made in another country. The trading corporation in the USA or elsewhere and not the producing company in which they have invested in Australia. Therefore, it becomes necessary for all developing countries to get together and to form some association which would regulate

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and control the production and the pricing policy and generally get information about markets and prospects of exports.

Dr Lall gave a very good lead when he was here in UNCTAD II. He called together all the developing countries what was originally a club of developing countries. We decide in 1972 that three major producers in the world being in the developed world, they should also be called in and that is why Australia, Canada and Sweden have been enlisted. Australia in particular has a definite

philosophy of supporting developing countries in improving their foreign exchange position through the export of raw materials. Australia itself is very much dependent—nearly 70 per cent of its export income is from mineral exports and from the export of raw materials. It is committed to a philosophy of supporting developing countries. We have its whole-hearted support in our demand to form a club and in the last January meeting in Delhi, we completed the labours which may result in the setting up of an organisation. I have mentioned this not so much as to say that

iron ore prices will go up. This price would have gone up by itself in any case. One of the greatest mineral economist in the world in his book said that by the end of this decade, there will be a severe shortage of raw materials and for minerals, and it will no longer be economic for people to produce. Steel producers have certainly responded to the great stress which is being placed on many countries and I am glad to say that I have myself given an undertaking to the Planning Commission personally that the price of iron ore will be at least 100 per cent higher by the end of this decade.

# Towards a new economic order

Prof. D. P. Chattopadhyaya

WE ARE in the midst of crisis when the world economy is confronted with the most formidable and challenging circumstances since the end of the World War II. Galloping inflation, acute imbalances in the international payment system and near-stagnation in the real output of many major countries have combined to create a situation of danger and uncertainty for developed and developing countries alike. The repercussions, however, for developing countries have been obviously more severe because of their greater vulnerability to external economic impulses.

We have now reached the middle of the second Development Decade and we cannot help feeling that the progress made in the implementation of the substantive provisions of the International Development Strategy adopted in 1970 has been disappointing. In spite of the significant efforts made by the developing countries, their average rate of economic growth, as reflected in the growth rate of their real product, showed a distinct decline in the levels reached toward the end of the last decade. Whereas for the developed countries, the total national product increased at an average rate of 4.9 per cent during the first Development Decade, and by 5.2 per cent from 1970 to 1973, it declined for developing countries, outside the category of oil-exporting countries from a level of 4.6 per cent to 3.8 per cent in the corresponding periods. The inequality among nations has, therefore, become sharper and

even the modest beginnings stipulated in the strategy towards narrowing the gap in living standards between the developed and the developing countries, are not yet in sight.

### comprehensive programme

The strategy for the second Development Decade was the first ever comprehensive programme to be adopted by the United Nations covering all sectors of activity for concerted and convergent action by countries at different levels of economic development and different economic and social systems. In adopting the strategy, the developed countries had undertaken a major commitment to contribute to the attainment of higher economic growth for the less affluent countries of the world.

For the first time, agreement could be reached on certain vital measures which would have significance in the dynamic context of restructuring of the world economic and commercial order. These relate particularly to the commitments undertaken by the developed countries in the field of science and technology, on the question of production policies in both developed and developing countries being carried out in a global context and are designed to achieve optimum utilisation of world resources benefiting both developed and developing countries. The document was expected to impart coherence and rationality to the efforts of the international community

to fashion a new world economic and social order.

No doubt, the basic postulates underlying the strategy have undergone considerable changes. We have, however, yet to notice any purposive action on the part of the developed countries in areas such as the elimination of tariff and non-tariff barriers to imports from developing countries. The new Multilateral GATT Negotiations have taken long to get started and the results are yet uncertain. In the meantime, certain important countries have adopted legislations which raise serious policy issues and may erode the benefits which could flow from a possible liberalisation of the world trading structure. International actions in respect of pricing policy and commodity arrangements on measures to improve conditions of access for products of the developing countries have been feeble. As a consequence, the share of the developing countries in world trade has continued to deteriorate. In fact, while the share of developed countries has gone up from 68.1 per cent in 1960 to 72.5 per cent in 1973; that of the developing countries including the oil-exporting countries, has declined from 21.6 per cent to 18.1 per cent. In countries not in the category of oil exporters, the share of world trade has declined from 14.8 per cent to 10.7 per cent.

Apart from this objective of a more equitable distribution of the international

nal trade flows among developed and developing countries, the development strategy has assigned an important role to the total flow of financial resources to developing countries and assigned a fixed percentage to official developmental assistance as a proportion of total financial flows. Against a target of one per cent net transfer of GNP from developed countries, the financial flow has declined from 0.84 per cent of the GNP of the developed countries to 0.73 per cent in 1973, and what is of even greater concern is a sharp decline in the official component of developmental assistance from 0.5 per cent in 1960-61 to only 0.30 per cent in 1973, which is far below the stipulated target of 0.70 per cent assigned in the development strategy document.

The strategy was conceived in the spirit of cooperation by the international community to refashion the world economic system along more rational lines. Since its adoption, there have been far-reaching developments which, no doubt, require a re-assessment of many important principles elaborated in the strategy.

The persistent inflationary pressures in the principal developed countries, the

monetary stability, the growing concern for the preservation of the human environment, the need to regulate the activities of the multi-national corporations and the far-reaching impact of the oil crisis, require a re-assessment of many of the principles adopted in 1970. Particular attention needs to be given for securing structural adjustments in the economies of both developed and developing countries for re-fashioning the flow of world trade in consonance with changing comparative factor advantages. It will not be possible to secure a rational international division of labour without the adoption of anticipatory adjustment assistance measures, so that the future evolution of world trade recognizes the need for maximising the gains from trade for the world economy as a whole, and in particular the economies of the developing countries.

The international community has shown its consciousness to many of these problems. It is in this spirit that the sixth special session of the United Nations on Raw Materials and Development of Developing Countries drew up a specific programme of action for dealing with these complex problems. A number of provisions of the programme of action

relating to development of trade, transfer of technology, have re-formulated the development decade strategy, in the light of the changes in the international situation, which have taken place since then. It would be our expectation that the review of procedures and programmes being currently devised by the international community in connection with the strategy would devote itself to a practical assessment on the extent to which both the strategy and the programme of action of the special session has been implemented and the further steps which need to be taken in this regard.

This is not an easy exercise and would require the necessary political will on the part of the developed and developing countries for adopting measures which, though in the short run would create transitional difficulties, in the long run would contribute towards the establishment of the new and desired economic order. It is only thorough cooperation based on understanding, through concession and compromise, that we can hope to achieve a just and fair use of world resources and can put the accumulated skill and experience of the community of nations to the service of mankind.

## Development banks and credit from OPEC

C. D. Khanna

THERE ARE three development banks in India: the IFCI, established in 1948; the ICICI, established in 1956; and the IDBI, a subsidiary of the Reserve Bank established in 1964. Between the three development banks in the country we are financing, on a consortium basis, most of the large and medium-sized projects in the country.

Looking to the record of the IFCI, for example, during the last 26 years, we have given total assistance of the order of about Rs 500 crores, equivalent to 652 million US dollars covering about 690 large and medium-sized projects distributed over traditional and non-traditional industries: for example, we have financed 117 sugar projects, of which 94 are in the cooperative sector; in the field of chemicals, 13 fertilizer projects, 29 basic

chemicals projects, 24 synthetic fibres and resin and 19 other chemical projects, totalling 85; 108 cotton textile projects, 14 jute projects, 51 iron and steel projects, 12 non-ferrous metal projects, 33 paper projects, 52 machine projects, 25 cement projects, 17 rubber projects, 33 transport equipment projects, 37 electrical machinery and appliances projects and 61 other projects. The estimated cost of the projects is Rs 2,600 crores, equivalent to US dollar 3.4 billion. These projects have been financed on a consortium basis by the all-India institutions, including the LIC and the UTL, in certain cases and also by the state level institutions.

The ICICI is the main source of foreign currency loan in this country as it is getting World Bank credit; in

the case of the IFCI, there is a limitation we are getting credit from West Germany; we have got 13 currency loans from West Germany, two loans from USAID, equipment credit from BFCE, and four allocations under the UK/India Capital Investment Loan amounting to \$4.50 million. The IFCI has given 252 sub-loans of an aggregate value of Rs 55 crores to meet the foreign exchange requirements of the industries in India.

In the case of the IFCI, the contribution to the cooperative sector is very significant. About 34 per cent of outside rupee loan assistance has gone to cooperatives, mostly sugar and textile industries. As I mentioned earlier, we have 94 sugar cooperatives, 27 textile spinning cooperatives, one fertilizer cooperative,



one Jute cooperative and one vegetable oil cooperative.

As I understand specific proposals should be mooted as to how there could be better cooperation between the oil-producing countries and developing countries such as India. It strikes me that

there could be two possibilities. The credit from the development banks in the oil-producing countries could be on the same lines as the credit we are getting from West Germany. The lines of credit could also be given either to the government of India or direct to the deve-

lopmental agencies such as the ICICI, the IDBI or the IFC for specific industrial projects, for example, sugar, cement or alumina and the product could be earmarked for export to the oil producing countries. I would like to make this positive suggestion.

# Search for a global strategy

C. Subramaniam

FIRST OF all we have to realise where we are and why we have arrived at a particular situation. If you look into the sixties, particularly the early part of the sixties, great concern was expressed with regard to the food situation in the world as a whole, and it was thought that, by 1975, there would be serious scarcity conditions, particularly in many of the developing and thickly-populated countries and that some of these countries would face not only scarcity conditions but famine conditions leading to millions of starvation deaths. Then suddenly the situation took a turn, particularly because of the new technology which was available and which was adopted in many of the developing countries. Therefore, there was almost an euphoria that we had got over the food crisis. But in the seventies, again, we have gone back to square number one and there is a good deal of anxiety regarding the food situation and we are trying to take various global measures for the purpose of meeting the situation.

## international attempt

The last international attempt was the Rome Conference about which people had great expectations. But, unfortunately, as it happens with all international conferences, they made some pious statements; some pious resolutions were passed; but, I have not been able to see positive line of action to meet the situation. Then we had the warning by eminent scientists and sociologists with regard to our environmental erosion. I am sure all of us know about it: if we go in the same direction as we have been going for the last 10 or 15 years, particularly after World War II, by the end of this century or the beginning of the next century, we would be reaching a situa-

tion where these resources would have been completely eroded and the resources position would begin to deteriorate fast, and not only the energy crisis will be there but all sorts of environmental degradation would come about. Therefore, this is a warning to the world that the direction in which we were moving, particularly the direction of measuring progress by the consumption pattern, by having more and more consumption, would mean more and more progress, but if this approach continues, the human community as a whole would come to a halt: there is the other side of the picture also apart from the resources being exhausted, namely, the whole environment being completely degraded to such an extent that human existence itself would become difficult. This warning is on the basis of more and more development.

## application of technology

Today the situation which we have reached is the result of the development of science and technology, the application of science and technology for various developmental purposes. Apart from the other aspect of science and technology being used for destructive purposes by the development of atomic and various other weapons, even if the process of the application of science and technology for developmental purposes goes beyond a certain level, it begins to interfere with nature, thus spoiling the environment altogether.

The very process of development and application of science and technology beyond a certain level was leading us to a position where the natural environment was getting completely affected. As a matter of fact, we had the Stockholm Conference to deal with

this aspect. There also, we had forthright statements from the statesmen of the world and as usual we ended with many pious resolutions and I do not see any positive action that had been taken on the basis of those,

## hallmark of progress

Not only the Gross National Product (GNP) and the consumption pattern but also the defence capability, not only to defend oneself but to destroy others, is taken today as a hallmark of progress. Therefore, more and more development of armaments and use of the resources for these developments have been taking place even before World War II; but after World War II, the development of nuclear weapons has been going on in a much faster way, utilising the resources for this negative purpose, not for the promotion of human happiness but for altogether negative purposes. There have been warnings from the various scientists, sociologists, philosophers, thinkers, statesmen, etc, if the world goes on in the same way of developing more and more armaments, we could reach an explosive situation, even unwittingly and perhaps, the whole humanity would be annihilated.

We have had a series of conferences, disarmament conferences, discussions in UNO and so on. But still this race has not ended. On the other hand, it has accelerated more and more, and the resources are being consumed for the negative purpose of developing nuclear weapons. We do not see any positive line of action for the purpose of solving this problem. It is in the midst of these things that the monetary crisis has come about. Therefore, in my view, this is not an isolated phenomenon which has come about. It



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has been developing since World War II. The monetary crisis has not come about in isolation; in my view, it has come about mainly because of these various forces which have been functioning in the world community as a whole. I am sure we would have analysed this monetary crisis in all its aspects because I have found that this has been emphasized to a great extent. It is not the oil crisis which has been the beginning of this monetary crisis. It began much earlier. Not even the delinking of gold and dollar which took place in 1971 was the beginning of the crisis. As a matter of fact, already the crisis had reached a particular situation which forced the USA to delink gold and dollar. In India we began to feel the pinch, when prices of various commodities and raw materials which we are importing into our country for various purposes increased, even before the oil crisis, and then on top of it, the oil crisis came which has brought about a qualitatively different situation. It is from this point of view that we have to look at this problem.

### Individual approaches

So if you look at the solutions which we try to find out in the international conferences, we see there are individual approaches, group approaches and everybody trying to get back to the original position before the crisis so that they may go in the same old path that they were pursuing. In my view, if we take just merely the monetary crisis and inflation which has come into the economies of the various countries, if we merely take into the oil crises or the energy crisis, we may not be able to find a proper solution. We have to find an answer as to in which direction the humanity has got to move and whether we go back to the same position where progress was measured in terms of GNP and more and more consumption. Or do we want to take a different view from that?

This path of more and more GNP and more and more consumption is bound to lead to a situation where the quality of life gets deteriorated in this process, therefore, if the quality of life has to be maintained, and which has to be measured on the basis of promotion of human happiness and human fulfillment, then different approaches will have to be made and different aspects of this more and more GNP and more and more consumption will have to be analysed and, perhaps, a new charter of human

development will have to be brought into existence,

At the same time, a question will have to be posed. Shall we have this divided world, divided into developed countries and the developing countries? Now it is not only the third world, a fourth world has come into existence. Therefore, shall we, as within one society have the elites and the poverty-stricken masses of the people and as this itself cannot be tolerated in the world community a system where a few countries would go on improving their consumption with whatever ultimate result it might be, and at the same time there is degradation and poverty in large masses of the people in the other parts of the world? Fortunately, it has been declared everywhere in many international conferences including the United Nations that this contradiction which exists in the world community today, of poverty in a major part of the world and affluence in a few parts of the world, cannot be stable and, therefore, the developing countries will have to be assisted for the purposes of coming up. Why is this assistance necessary? We will have to analyse and find out.

### need for survey

Take the case of India. It is not as if India as a country is poor. If we look into various resources, natural resources available and known—most of it still is unknown because we have not made a comprehensive survey of our natural resources as a matter of fact we have been planning even without knowing what we have—I can say India is not poor. In every country fortunately, the nature (or God) has endowed each region with its own natural resources and it is a question of exploiting those natural resources for the benefit of community located in that area to meet the requirements of human existence and as far as our country is concerned, at least meeting the minimum needs for a minimum standard of living in our country. It is a question of knowing the resources we have. It may be soil; it may be water; it may be minerals; it may be forests which exist in our country. But knowing these resources and having the capacity to exploit these resources for the benefit of humanity without degradation to human environments, without affecting the natural conditions in a big way, is the main issue.

First of all, even for knowing what we have, we require certain

scientific and technological competence which if we have to develop on our own, would take a long time and also develop all the equipments which are necessary for that purpose. But fortunately, even various other developments have taken place for that purpose, for example the development of satellites. This has given us the capacity to use those satellites for the purpose of surveying the natural resources in a big way and in a much easier and faster way.

Even for the purpose of knowing the resources we have to have a comprehensive resource survey. We have to utilise the most sophisticated technology available today; otherwise it would take at least a few generations if we adopt the old traditional methods of survey to know what we have. Those who have this capacity, will have to render the assistance to those who do not have, even in the first instance of trying to find out how to make a realistic comprehensive survey of our natural resources. Assistance has to come from those who have already developed and who have the technological competence and the technological ability to do so. This becomes necessary.

Merely knowing the resources is not adequate. Exploitation of these resources in a meaningful way is also essential so that these resources are made use of for raising enough food for feeding the millions of our people, and providing shelter, and some sort of health system and more education to our people. So even if we take the basic minimum needs of the community, it can come about only by exploitation of the resources to an optimum extent.

### food crisis

Take the case of food. I have had the privilege or misfortune of having been the Food and Agriculture minister at the most crucial period in India, during 1964-67. At that time we were faced with such a crisis that we had to import from abroad at the rate of one million tonnes per month, not per year but per month. Even our capacity to get them into the ports and unloading them and then taking them to the points of consumption was disputed and doubted at that time, but still we achieved the goal, of importing one million tonnes foodgrains and then taking it to various points of consumption. But certainly the food problem of India cannot be solved on the basis of importing the foodgrains on a large scale.

Unfortunately our country, in respect

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of population, is a fast growing country. Today we are reaching nearly the 600 million-mark. And if it goes on in the same way, very soon we will reach the 1,000 million-mark of population i.e., a billion of human beings. The capacity to feed the millions of our people could be achieved only by utilising the available resources.

### basis of development

Even a preliminary survey shows with regard to the soil and water availability which is the basis of agricultural development, that we are quite competent and that it should be possible for us to grow enough food to meet the requirements of our people, apart from the cereals, edible oils, the fibres required for our textile industry and various other commodities such as plantations etc. All this can be achieved provided we have a full knowledge of the soil and water resources and we understand the soil in all its implications and we are also in a position to utilise the surplus water, and underground water in a planned way. Then only it is possible with the application of new technology, available in the agricultural sector to achieve production levels, not only of 120 million tonnes but 150 million tonnes and 200 million tonnes. When this new technology is to be used, it is not merely the understanding of the soil conditions, it is not merely a survey of our underground water resources, a survey of surface water resources but a linkage together of soil and water and the new technology, the new inputs for growing enough food to meet the requirements of the millions of our people.

Take the seed itself. Whereas in the traditional manner, every farmer was used to grow his own seed and if he did not grow, he would borrow it from the neighbour. Now it is no longer possible to have this traditional approach with regard to seeds. New varieties of seeds will have to be evolved by more and more agricultural research and quality seeds will have to be produced on the basis of application of science and technology. They will have to be properly processed, stored and distributed. This itself becomes an industry and this material input will have to be made available to every farmer if we have to have increased production in each farm.

It is not merely the seed, the soil and the water. We also require fertilizers

at a very high level. Whereas in the traditional agriculture we were using about perhaps one or 2 Kgs of nitrogen per hectare, this new technology requires nitrogen apart from the NPK combination, at the level of 60 Kgs per hectare and sometimes even 100 or 120 Kgs per hectare, to achieve optimum results. Therefore, fertilizer becomes important. Fertilizer will have to be produced within the country or will have to be imported.

We were going in for large-scale investments in the new fertilizer plants. At that time there was a hue and cry whether this investment was necessary. We were told by some of the world economists and by the world statesmen that there was already enough capacity available in the world for production of fertilizers and this would become infructuous investment if every country went on investing in fertilizer production. The raw materials, we were told, were available easily and at cheap rates because at that time the oil was the cheapest source of raw material for fertilizers and was available in abundance.

### marginal investment

Therefore, it is enough if we have marginal investments in fertilizers and it would be possible for a country like India to import at a very cheap rate whatever fertilizers are required, at the cost-benefit ratio. It would be better to import it from the existing sources of investment rather than going in for new investments. We could as well use those investments for other purposes where there are world gaps. As a matter of fact, our programme of investment in fertilizer was affected to that extent.

Suddenly the situation has changed. There is scarcity for fertilizer all over the world. Apart from the high level of price, we were not able to get it. Fertilizer has become one of the main inputs for agricultural production and that will have to be made available in large quantities. It requires technology investment for that purpose, management for the purpose of managing the system and for the production and distribution. Then, plant protection becomes necessary; therefore, chemicals and other new agricultural implements. If all these things have to take place—I am talking at the moment only the food side of the situation for a country such as India—

then, all these inputs will have to be made available. If we have the time, perhaps a century to adapt ourselves to these conditions, then we may be able to develop all these facilities ourselves and would be able to meet the situation. But, unfortunately, time is against us. Even now we are being warned that there is going to be a scarcity of foodgrains, a world scarcity of foodgrains, and the developing countries particularly would be faced with a serious situation. Therefore, even to meet the elementary needs of the people with regard to food requirements, unless we are in a position to develop these various material inputs we require for agricultural development today, we would not be able to produce more and then the necessity arises for the purpose of transfer of resources and technology, even for the purpose of meeting these elementary needs of the people.

In the same way, if we take into account the various other basic minimum needs, leave alone the elite consumption and affluent consumption which the other countries have reached, the countries do not have the capacity. They have to develop the capacity as they go along. But, as I said earlier we cannot wait for long. If we wait for long to have these developments, then perhaps we will be faced with human tragedy with regard to scarcity conditions or with regard to the spread of various epidemics if we do not take various sanitary measures. So, it is in these conditions we have to see whether the developed countries which have their resources already developed, are going to help the other needy countries or this is a cruel world. Therefore, everybody will have to go alone as best as he can without getting assistance from any other—whether it be within the country or outside the country.

### concerted action

We have got to take decisions whether these provisions of helping of developing countries are going to be translated into action or because of these various crises developing countries would be completely forgotten and decisions taken on the basis of solving their own problems for the purpose of producing more and consuming more and becoming more and more affluent. In my view, we have to take a global view of things and then to take decisions on that basis—whether it is going to be the consideration of

the monetary system or the consideration of the energy crisis. All these will have to be taken in this global context. But, unfortunately, in the few international conferences which I have attended, I find only individual and group approaches rather than global approach being adopted for the purpose of solving the problems. If we take an individual or group approach, I am afraid we will not be solving our problems.

## new economic order

Perhaps, in trying to meet the crisis we might bring about a more acute crisis, particularly in the developing countries. Take, for example, the monetary system today. What is the attempt which is being made? It has been agreed that what was decided in Britain with regard to fixed parities linked with gold is no longer relevant and it is no longer the way in which the monetary system of the world should be organised. There has been a consensus that the monetary system should get away from gold being the basis of the world currencies. But still those who have the advantage of having the monetary gold in large measures today, want to utilise the situation for the purpose of meeting their own conditions rather than getting away from the monetary gold system. Again, dollar became the reserve currency even though there was gold standard. Now it is said that SDR should become a reserve currency and other currencies should be linked into it. But if we listen to the representatives from the USA or those who have got the advantages of dollar, they cannot reconcile themselves to any situation where the dollar would cease to occupy this crucial role in the world monetary system and, therefore, whatever system is discussed, they make this approach to bring dollar again as the focal point, as the basis for international monetary system.

Even though sterling has become one of the weak currencies, Britain would still say 'why should sterling get away from this central position'. They want to bring up again. I am mentioning these for the purpose of emphasising that there are no partial solutions to the problem with which we are faced. It has got to be a package and it has got to be on the basis of a global approach rather than individual or group approach. If we accept this, I am sure it

will be possible to plan appropriately for the purpose of finding solutions for the various problems. Can we bring about an atmosphere in which the nations will be forced to think on these lines? This is the problem facing the world today and financial writers naturally have a big role to play in this.

The press has got a big role to play in educating, organising, and directing public opinion and, therefore, the financial writers can bring about an atmosphere in the world today, to have this global approach. Even in our own country, when we think in terms of progress, we always look to reaching at least the minimum standards reached in the other developed countries. We look in the same direction and that is our concept of progress too. In my view, this has got to change and if the change has got to take place, world opinion will have to be educated and new attitudes will have to be developed with regard to human development and application of science and technology, monetary system which will serve the world community.

## socialist model

Here we look across to the other parts of the world, the socialist world which has claimed — even though most of us may not fully agree with this — that the socialist bloc as such has not been affected by this crisis to the same extent, even though marginally they also have been affected because of the relationship with other parts of the world. But taking as a whole, their economies are more stable than the economies of the other countries in the rest of the world. Why? In my view, though some of us, object to certain aspects of central planning, we may not accept certain philosophies, social philosophies which are adopted by them, but there is an integrated approach to economic development and social planning within that system: and that is why, in my view, they have not been affected.

Maybe, there were grievances here and there, but on the whole the socialist countries have stood the crisis much better than other parts of the globe. While one may not go to that extreme rigidity of central planning, unless we have a global approach to our problems, perhaps we may solve one problem and the solution itself leading to two other or many other difficult problems in the rest of the system itself. This is the

thought which I place before you for your consideration because while this global approach is made each component will have to be analysed. If each component is analysed, it is isolated from the rest of the problems. Then, perhaps, the decisions we take may not have a relevant meaning to find solutions to the whole problem. While each component is analysed, the total picture will have to be kept in mind. Are we in a position to assume that this approach will be made and what are the road-blocks in making this approach? This is what those who are in a position to influence world opinion, will have to consider.

## monetary crisis

The monetary crisis, the inflationary aspect, the energy aspect, how to transfer the resources available in OPEC and where to divert them—all these would fall in line once we have a global approach, a global strategy, taking into account the requirements of the various parts of the world which are the components of the world system today. Unfortunately for us, we in the developing world, form a major part of that community — 600 million. Even in terms of assistance, whether it is through the World Bank or the Monetary Fund or bilaterally, we look at the resources made available to India as one country as any other country and then they say India is taking away the major share in this assistance programme without taking into account that there are 600 million human beings whereas all the others represent only a small part of the developing world.

Perhaps people would like India to be ten different countries, different states or 20 different states. Perhaps, then the assistance would become easier because each unit would be considered as one for the purpose of assistance. Certainly, I am sure, the world would not like India to be disintegrated. Anyhow, we are not going to disintegrate for the purpose of getting more assistance. At the same time, those who are in a position to give more assistance will have to take into account the population in our country and also relate the assistance to the per capita requirement of each country. Then India perhaps may be in a better position—instead of being accused in some forums that we are taking away a major share of whatever assistance is being made available.

# Tackling large projects

M. M. Wagle

THERE IS immense scope for increasing exports to OPEC, and also various limitations which should be taken into account. My views on these points is a little different because I feel that we are not concerned so much with the population of these countries but with what they intend to do with the very large resources they now have. It is clear that bearing in mind their anxiety not to depend solely on oil, they are anxious not only to improve the standard of living of their people but also to develop a wide and broad-based infrastructure of industry so that in due course they would be able to depend on other sources for their national economy.

When we get a little anxious to develop the infrastructure for industry, I feel we in India have particular advantages, because we have been through this process during the last few decades ourselves and we are still involved in it. These countries have requirements not only of the products that we manufacture, ranging from diesel engines, pump-sets, generating sets, industrial gears, transformers, motors, fans, construction equipments, earth-moving equipments and a whole lot of other products, but they are also anxious to develop in their country particular industries which will make them, in due course of time, independent of imports.

## no credibility gap

I feel that in the first area, which is the area of exporting products, we no longer really suffer from this credibility gap. We have been, over the last ten years, using the advantages of proximity of the old trade connections, and of the willingness of our engineers to go out to areas which were not considered very salubrious by the more affluent technicians in developed countries.

We have in the last ten years endeavoured to market our products in OPEC and therefore, and have already, by now—I am talking of the industry, not particularly of my group of companies—overcome the credibility gap in a large number of products. We no longer have to sell our products at discount; we are no

longer in need of special concessions being shown to our products or give away 20-30 per cent of our price in order to make the introductory sales. Our problem now is not one of getting the customer to accept the quality of our goods but being able to produce and deliver in time.

## export consciousness

We have certain advantages. We are perhaps more export conscious because out of the total products we make only a small proportion is exported. We have been able to, particularly in the last few years when prices have gone up very sharply in developed countries and their own order books have made deliveries long and uncertain, cash in on our willingness to pull things by out-of-turn production schedule to meet the urgent needs. By these methods we are now fairly well-established in the sale of these products. But our limitations are in getting raw materials in time, in getting shipping space and such problems which are primarily outside the immediate control of the engineering industry. We have also problems of administrative and of financial nature.

Despite the increasing accent on exports, there are very serious limitations of immediate availability of funds, even if it is supported by bilateral credit. There are limitations in getting clearances, in determining what sort of export incentives we would get, whether we could count on those incentives being equal to our raw materials cost at world prices and so on. But, with all these difficulties, the units with which I am connected and several others, of whose performance I am aware, have succeeded in developing a sizeable export market and during this year we hope to improve our performance at least five-fold. This would be quite a sizeable achievement. However, I feel that it cannot be increased ten-fold due to circumstances largely beyond the control of the industry.

The other area which is even more exciting is that of technical collaboration with oil-exporting countries in the establishment of industries which we our-

selves have developed during the last two or three decades. The fact that we have ourselves gone through this experience within living memory makes our technicians far more sensitive to the requirements of the host countries. Our company has been associated in two such large ventures and we have found very warm readiness on the part of the host country to support our technicians. Our technicians have also been far more willing than those from developed countries to settle down for a period of years under rather difficult conditions in remote areas, and when we get trainees from the host countries coming to our factories they also feel welcomed and find it easy in learning trades which our technicians themselves have gone through during the last few years.

## tough competition

What really comes in the way of exploiting this potential (i.e. the tendering for projects, for turn-key projects or for establishing a new industry,) is that there is competition from developed countries on account of the tempting prices. The developed countries, in addition to their own experience in handling such ventures have the benefit of institutional support in two forms. First, there are institutions such as the EXIM Bank which can assess the project, and which can decide that the people who are tendering are responsible and have the necessary equipment to meet their commitment; and if they are satisfied, then they are prepared to back them wholeheartedly. We lack such an institutional support in this country. It does take a great deal of time for us to find out whether the requisite support will be forthcoming and what the cost of such a support would be and what we should allow for the uncovered part which we have to take care of ourselves, which can be very substantial.

The second area is that of support from the government. Now we do know that our government is extremely anxious to support the endeavours of this nature and in each department there are executives who are very helpful and who would like to give us all the assistance possible. What we like is coordination

of these disparate efforts in the different departments and this coordination is essential because there is a definite time-limit during which we have to make up our minds whether we could go in for large projects or they were beyond our capacity. The value of time still has not been appreciated to the extent it should be in our country. What we would like to have is one central authority and agency, a sort of super Trade Development Authority (TDA) which has the capability, and which has on its staff, technical and financial executives, who can first of all assess the competence of entrepreneur and if they are satisfied, should give an answer within a matter of days but not of weeks and of months—sometimes it takes years to decide whether or not we can go ahead in the knowledge that support would be forthcoming at least to the extent of our counting on getting our raw materials at world prices. I think if that minimal assurance is available, we no longer need substantial incentives in other forms.

#### **assured supply**

We are no longer selling our products at discount. In some cases we are even able to market our products at better prices abroad than we get inside the country. What we need is assurance in regard to the supply of raw materials and immunity from exposure to very sharp increases in the prices of raw materials which can throw our calculations totally out of gear. These are not very difficult items of support. They are available in countries such as Japan, which is often quoted as the country of model entrepreneurs and we are advised to emulate their example.

Now, there are models of such organisations. My plea would be that an effort be made to have a central authority which first of all will ensure that, when there are large projects of this nature, only those people who are really capable of doing the job will venture in. The last thing one would do is, go into the host country and not succeed in fulfilling the commitment, because that not only damages the reputation of that particular entrepreneur but also does serious damage to the reputation of India in this field. Fortunately, as I said earlier, from what I have seen of other units and my own experience of two such large projects that we took over, the host countries had no occasion to complain either of our competence or of our capability to

deliver in time and to keep to our promise.

The scope here is really enormous. It is not limited by the population of the host country. Their needs are roads: power stations, water, and to use certain chemicals they already have and trucks, construction equipment, earth-moving plant and the whole lot. They have the money to pay for it and are friendly to us. We are near to them. We can be on the spot quickly. We can provide and we have provided better-after-sales service than reputed firms from developed countries. I see no reason why within the next two or three years we cannot expand in this field by at least ten times; simply because we are starting with a small base, what is involved is not a matter of a few millions or a few crores but hundreds of crores.

We need this support now, because every time we miss an opportunity, we are letting a developed country get in there and establish contacts and increase the tendency to rely on people they have come to know. We want to be the people they have come to know. We want to be the people who have done the first job well; there is no second job. The credibility gap does not come in. This is a very limited field. Yet I feel that in addition to very interesting potential indicated earlier in regard to metals, in regard to other products, this is a field in which hundreds of crores of rupees are involved, and bearing that in mind, we should be prepared to have consultations between industry and government so that in these two areas we are given the necessary support. We no longer have any excuse not to do our job, which, I feel, our country can do with confidence.

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# In and around Pacific Asia-II

V. Balasubramanian

THERE WAS only a couple of evenings to go for Christmas eve. Still the singer in the Hong Kong night club could complain, as indeed she did, that she had seen more people at a time in her hotel room than there were in the audience. She probably was exaggerating, but it was quite true that it was not only the cold wind of December that was blowing through that notoriously zestful colony. Living on exports all the time, Hong Kong is naturally sensitive to currents in international trade or the world economy. As 1974 was giving way to 1975, those currents were anything but warm or bracing.

From 1969 up to the end of 1973 this island economy was having it exceedingly

The first part of this series appeared in our issue of January 24.

ing without their host. By the first half of 1974 the two-digit inflation developing in so much of the world had caught up properly with Hong Kong's frisky economy as well. With commodity prices rising steeply, the island, lacking natural resources, saw itself in a state of siege, while the quadrupling of oil prices smashed into the heart of its manufacturing sector. Wholly dependent on imported fuel, Hong Kong promptly had to sit down and take note of its changed for-

ducts. The food industry, which ships about 50 per cent of its output to markets all over the world, claimed that it was holding its own although not as vigorously as in 1973, when the exports had increased by 20 per cent over 1972. Nevertheless, it was becoming increasingly evident in the later months of last year that hard times were on the way.

As a matter of fact, in the last quarter of 1974, the world-wide recession in textiles was hitting Hong Kong's export trade in these goods in two ways. In the first place, markets were contracting and secondly competition was increasing from neighbouring countries which, it was being complained, were dumping yarn and fabric at below-cost prices. This was no small threat since these rival exporters had doubled their production capacity over the last few years. Producers of low-quality garments in Hong Kong were particularly finding it difficult to compete with Taiwan and South Korea where labour costs were much lower. The squeeze on exports and profit had come at a time when wages had reached relatively high levels following a steady rise over the years. This naturally gave rise to problems of serious unemployment or underemployment, which were becoming increasingly acute in the closing months of 1974.

A government report published in September showed that more than 15,000 workers had lost their jobs in manufacturing industry even in the first quarter of 1974. Since then more and more factories had been curtailing their operations by anything between 20 and 50 per cent. The textile and plastic industries were the worst affected in this respect. The construction trade was also a large sufferer. In August it was decided to shut down 3,000 small factories for three months to cut down financial losses with the result that some 260,000 workers were thrown out of employment and made to fend for themselves by seeking alternative jobs which, however, were hard to come by.

Since food prices had been rising sharply from 1973 itself, the social distress caused by unemployment was all-

## WINDOW ON THE WORLD

good. In this period its imports went up by 94.7 per cent, its exports by 85.2 per cent and its re-exports by 143.5 per cent. Industrial wages improved in real terms by 17.5 per cent even as the number of employees in manufacturing industry rose by 19.4 per cent. Bank deposits grew more than double and bank loans more than three times. Government expenditure rose by 48.3 per cent but this was no inconvenience at all since the revenue nearly doubled. The stock market began booming stimulated very considerably by the dramatic increase in money supply. During 1972-73 even conservative bankers were saying that the economy had nowhere to go but up as real estate, hotel and tourist sectors along with manufacturing industry were taking a sharp upturn.

The optimists, however, were reckon-

ing. The four-year-old bull markets in stock and real estate values crashed, thanks to the worsening of liquidity and interest rates going up twice in the course of 1974.

Hong Kong's exports, however were bearing up rather well for the greater part of that year. In the 12 months ended July 1974 exports went up in value by 38.6 per cent as compared with the preceding 12 months. The textile industry accounts for more than 40 per cent of Hong Kong's total exports with garments making up 70 per cent of textile exports. During the first half of the year, textile firms were reporting substantial increases in their earnings, with both spinners and weavers doing exceedingly well, thanks partly to the large profits which were being made on stocks following the increases in prices for raw materials and pro-



the greater. The government has tried to give some relief by stabilizing the prices of basic commodities such as rice, oil and fuel, but as against this Hong Kong's laissez-faire political system has no social security benefits to offer to its unemployed. There was as yet no sign that white collar workers were much affected but the lot of the middle class was not exactly unenviable. Prices of durable and miscellaneous goods were going up all the time. It was however some comfort that belated rent control legislation was at last affording some protection to tenants victimized by Hong Kong's notoriously rapacious rentiers and real estate speculators.

### new markets

To the extent that Hong Kong's inflation is imported and cost push, there is not very much that its government could do about it, at least in the short period. By the same token, however, the declining trend in world commodity or raw material prices should provide some relief to Hong Kong's economy in the future, provided its industry and export promotion are able to function sufficiently vigorously and flexibly in world markets despite the recession in the industrially advanced economies. The chairman of the Trade Development Council, Sir Yuet-keung Kan, said, in a year-end message, that Hong Kong hoped to maintain the growth of export trade by stepping up its efforts to develop further some of its newer markets. According to him 48 per cent of Hong Kong's export growth in 1974 could be attributed to areas other than the major regions of north America or western Europe. He indicated that this should encourage Hong Kong to intensify its export efforts in the direction of the middle-east, eastern Europe, Australasia and African and Asian countries. The TCC in fact has a programme of organizing visits by Hong Kong business groups to the Arab world, Africa, south-east Asia and Latin America. Industrial investment promotion projects are also scheduled for Australia, Switzerland and Germany.

Hong Kong's exports to the Arab world advanced by 55 per cent to HK \$ 444 million in 1973 and the growth rate last year has been of the order of 66 per cent. Similarly Hong Kong has been stepping up its trade with east European countries in its search for market diversification. The east European area imported goods of the value of HK \$ 37 million in January-August last year. This was not a large amount, but it was nevertheless 71 per cent more, than the corresponding figure for January-August

1973. The colony businessmen see in this trend an indication of the potential in east European markets. A banking consortium, Hong Kong Fintracon Limited, has been making loans to a number of east European banks to finance purchases from Hong Kong. This consortium has been in business for some time now and has already extended credits to Poland and East Germany. Clothing accounts for the major part of Hong Kong's exports to east Europe. In the first seven months of 1974, exports to Poland went up by 11 times with textile yarn, thread and synthetic fabrics contributing 67 per cent of the value. Since it imports industrial raw materials and semi-manufactures from east European countries in fairly large quantities, Hong Kong has a growing trade deficit with that region and is keen on bridging the gap.

### delicate phase

Hong Kong's economic relations with Japan have entered a delicate and difficult phase. There is a feeling in the colony that Japanese business has lately been showing a slackening of interest in trade or investment opportunities on the island. This suspicion is likely to be strengthened by the latest developments relating to Hong Kong's project for a mass transit underground railway system. Until the end of 1974 the Hong Kong government seemed to be confident that the consortium of leading Japanese companies including Mitsui & Co. Ltd., Marubeni Corporation, C. Itoh & Co. Ltd., Nissho-Iwai Co. Ltd. and Sumitomo Shoji Kaisha Ltd. and headed by Mitsubishi Corporation, would go through with the construction of the project for which it had successfully bid through its Hong Kong representatives, Jardine Matheson & Co. Ltd. It was however known even then that the Japanese consortium was seeking to re-negotiate the ceiling of HK \$ 5 billion (over US \$ one billion) on the cost of the project to which it had earlier agreed. The Japanese claimed that they had a problem because of inflation and confessed their inability to work under the ceiling. The Hong Kong government at any rate seemed to have believed that some understanding could be reached with the Japanese consortium without the cost of the project going up substantially. This hope finally failed to fructify. Pleading soaring material and construction costs, the Japanese consortium recently announced that it was pulling out of the deal. This decision has naturally caused much heart-burning in Hong Kong. Its government, however, has promptly declared its intention of going ahead with the subway although not on the originally planned ambitious

scale since a project of that size would now cost double what the Japanese had agreed to as a ceiling in their bid for the contract.

The underground railway project was conceived at least partly as a symbol of Hong Kong's confidence in its economic and political future. In this sense it was as much a prestige scheme as a utilitarian one. Perhaps of greater immediate relevance to the economic problems or needs of the colony are the schemes that are being considered for upgrading Hong Kong's industry to a higher technological level where its exports could compete in world markets for middle-level goods in respect of which Hong Kong may not be at a disadvantage with regard to its competitors with relatively low labour costs. Apart from making land available for special industries at concessional prices on a restricted use basis, the government is planning to set up Hong Kong's first industrial estate.

In considering such schemes the authorities are encouraged by the fact that Hong Kong continues to have its attraction for prestigious foreign companies including multinational giants, as an attractive industrial location. For instance, Philips opened two factories in Hong Kong in the course of September last year. The first was a miniature light bulb factory with a projected yearly output of 25 million lamps. This plant was described as the most advanced and highly automated factory in Hong Kong. The second was a plant for the production of transistors, diodes and integrated circuits. Philips Hong Kong Limited is already a leading member of the colony's robust electronics industry which is its second largest export earner.

### keen expectation

Hong Kong, then, is not unduly depressed by its problems. On the contrary, there is keen expectation in financial circles that some of those millions foot-loose petro-dollars would find their way into Hong Kong's economy. Here the colony has the advantage that its banking system has grown rapidly in recent years thereby making it one of the world's leading financial centres. Observers have ascribed this progress to incentives such as low taxes, good communications, a strong currency, lack of controls, a sophisticated infrastructure, an industrious population and a stable political climate. There are no doubt quite a few who complain that Hong Kong has needlessly lost out to Singapore on the Asian dollar market and they are pleading that this is partly because of the 15 per cent withholding tax which the Hong Kong



government insists on levying on interest earnings. Even they however seems to agree that Hong Kong's banking system is in as good a position as Singapore's to participate in the recycling of petrodollars.

It is highly probable that Hong Kong will be able to stabilize its economy in the course of this year. Should the process however happen to be unduly prolonged, the colony's administration will necessarily be called upon to cope with increasing social stresses and tensions. This would partly be because mainland Chinese would not stop pouring in even if Hong Kong's economy were to operate at less than optimal level. Already community facilities and amenities such as

schools, hospitals and housing are being over-stretched, rendering the poor of Hong Kong poorer than they need be—a situation rendered all the uglier by the ostentatious living of the very rich in the colony. Even in Japan the Imperial Hotel, which advertised a year-end offering of a gourmet dinner (and Marlene Dietrich) for 100,000 yen, found that it did not always have enough takers.

In Hong Kong, however, Christmas stores, car salesmen, yacht brokers and representatives of aeroplane manufacturers were having all the customers they could handle for their higher-priced goods. Among the deals reported during Christmas week was a Ferrari at HK \$ 134,000, an A-class cruising yacht fetching HK \$ 150,000, a sapphire and diamond neck-

lace reported to be in the range of HK \$ 1 million and lots and lots of imported dresses carrying price-tags of HK \$ 3,000 or more and handbags with platinum and gold accessories retailing at HK \$ 15,000 each. Whether the big spenders were spending big because of some doomsday syndrome or they were throwing their money about simply because they had money to throw and were hoping to have even more of the stuff in the future were questions which seemed rather pointless to ask in Christmas week in Hong Kong. As for that aggrieved night club singer, she might simply have not been good enough for the places when the big money men of Hong Kong went for their fun.

*(To be concluded)*

# Into a world depression?

Josselyn Hennessy  
London

## I Collapse of Bretton Woods System

THE WORLD economy is now going through its most difficult phase since World War II. Since August 15, 1971, we have witnessed the collapse of the old monetary system. At the same time world-wide inflation has jumped from a creep into a gallop, and there are now more and more indications that the era of steadily increasing prosperity in the leading industrial nations is drawing to a close. All of this would be true even without the four-fold increase in oil prices, which has widened the inflationary gap between supply and demand to its utmost. The oil price increase is also compelling a prosperity shift that contains the seeds of recession for the industrialised world and disaster for the oil-importing developing nations. Companies, certain business sectors and even whole countries, are showing signs of collapse, so that the spectre of the 1930s looms large in public discussion. Will it remain a spectre, or are we soon to return to a world depression?

First, let us not paint all the storm signals together into a single apocalyptic canvas. The collapse of the Bretton Woods monetary system was really nothing more than the logical consequence of its own built-in contradiction, namely that because the dollar was the main reserve medium, the supply of the world economy with monetary reserves pre-supposed permanent US balance of payments deficits. It was precisely these US deficits, however, which undermined confidence in the dollar and made other countries reluctant to grant the USA

unlimited credit, all the more so because of the sharply dwindling gold reserves backing such credits. Against this background, the suspension of the dollar's gold convertibility on August 15, 1971 was logical and held the promise of a more rational monetary order.

The Bretton Woods system did, of course, provide more than enough monetary reserves—especially for countries such as Switzerland and West Germany, where the repeated crisis of confidence in the dollar generated massive inflows of capital. Following the suspension of gold convertibility, these floods naturally assumed panic proportions. Finally, the Swiss National Bank decided to stop accepting the intruding foreign exchange at fixed rates, preferring to let the Swiss franc, rate climb under the pressure of the huge volume of foreign exchange offered rather than watch the money supply expand recklessly as a result of the continuous surrender of francs against foreign currency. West Germany revalued several times before floating.

## II Inflation and Floating Rates

The postwar monetary system generated inflationary impulses, and it is the long-term repercussions of these that we are encountering today.

Though no one would claim that floating exchange rates have promoted world-wide stability, at least they have eliminated the compulsion to import inflation and made it possible to get monetary expansion under control. The switch to floating rates (which followed

the suspension of dollar convertibility) as the second stage in the collapse of the old monetary system was, however, just as much a result of the aversion of less stability-conscious countries to the restrictive policy needed to keep balance of payments in equilibrium. Thus Britain was followed by Italy and—after the oil crisis—France in withdrawing from the European “snake” (which involved maintaining fixed exchange rates among members) because soaring prices, with their catastrophic effect on monetary reserves, forced them to choose between declaring all-out war on inflation (and taking the consequences in unemployment) and drastically devaluing their currencies.

## indirect relation

Hence there was only an indirect relation between the transition to floating exchange rates and the suspension of dollar convertibility. The underlying cause of floating rates was the varying extent to which the European countries were prepared to tolerate inflation. For those among them that place less value on stability, there are, however, two sides to the question of floating rates. It is true that they eliminate the need for deflation to keep the existing parities in line. The trouble is that the resulting gradual devaluation of the currency makes imports increasingly expensive, so that inflation becomes harder to resist. This again leads to devaluation tendencies, which together with the ensuing lowering of export prices, cause a systematic erosion of the economy. Thus the inflationary gap between the demands made on production and productive capacity is widening further. The only way to break this vicious circle is to bolster the currency with

outside aid and, at the same time to introduce domestic stabilisation under worse conditions. The need to do this becomes all the more urgent, because the debt owed those who have lent aid piles up as long as the devaluation trend persists. The country's international credit rating suffers as well, limiting its freedom of action in stretching out the slowdown interval.

### III

#### Inflation Breeds Crisis

The progressive inflation plaguing the world, which dealt the final blow to the monetary system and has brought several countries to the brink of bankruptcy, is fully explicable without the oil crisis. The habit of expecting ever-increasing growth rates in nominal income was confronted by shrinking latitude for growth in real terms. Such a discrepancy can only survive if it is financed, i. e. if the flow of money available to buy goods grows faster than the supply of goods can be increased. Initially, inflation was financed by the dollar flow towards Europe: by 1973, US balance of payments deficits had accumulated to over \$90,000 million, nearly \$70,000 million of which was taken up by foreign central banks, —which has thus boosted the domestic money supply in their countries proportionally and permitted money in circulation to expand via the internal mechanism for creating means of payment. Roughly speaking the money supply in the narrow sense (M1) more than doubled in Western Europe and in Japan between 1968 and 1973, while the rise in the USA was only just over one-fourth.

Incidentally, note that the money supply expansion caused by influxes of foreign exchange need not be inevitable; any country with modern central bank can keep it within desired limits. This, however, does not apply to the Euro-market, which was the target of the remaining dollar balances of about \$20,000 million. The credit creation multiplier on that base was virtually unlimited. In any event, the gross amount of short-term dollar balances outstanding in the Euro-market in the summer of 1974 is estimated to have reached much more than ten times the base figure mentioned. So the Euro-market made an explosive contribution as a financing instrument for inflation.

Inflationary processes tend to be self-accelerating, because they give debtors an advantage over creditors, stimulate a flight into real assets—thus speeding the circulation of money—and cripple the will to save. Moreover, social

groups try increasingly to institutionalise ways of safeguarding their purchasing power. But it remains true that inflation cannot simply be allowed to run its course, for this would ultimately distort the economic control mechanisms to such an extent that the economic and social order would end in ruins. We are dangerously close to that point; in fact it is possible that several countries have already crossed the threshold.

Unfortunately, it is less widely realised that, in the long run, inflation will not lead to higher growth rates or guaranteed full employment: instead, it ends in economic break-down. The most obvious reason is that the deflation necessary to restore equilibrium must be all the more severe the longer that inflationary excesses have been allowed to go on. The resultant rise in unemployment and under-utilisation of capacity will be that much more serious. Even before this point is reached, though, the inflationary process causes distortions that necessitate painful correctives later on. One example of this was the flight into real estate that inflated the building industry out of all proportion in many countries; now construction is going through critical retrenchment with repercussions on the rest of the economy.

### IV

#### Repercussions of Oil Price Rises

It would not, in fact, be surprising if such excesses were to bring about a recession by themselves. On top of them, however, came a four-fold increase in the oil price, the first effect on which was an added inflationary push to all the oil-importing countries simultaneously. It also meant an increased flow of foreign exchange, estimated at \$ 60,000 million a year if prices remain constant, into the oil-producing nations. If the producer countries were to use this extra income to buy products from the oil consumer countries, the main result would be a prosperity shift in favour of the producers. Once the non-recurring price increases were absorbed, further problems of an inevitable nature would not arise.

But the oil producers are incapable of taking in substantial quantities of extra goods in a near future and are just letting their balances accumulate. If they simply extended credit to each oil consumer country by the amount of its oil purchases, the prosperity shift would merely be postponed. But there is no such parallel. When the oil producers buy extra goods—particularly capital

equipment—they turn to countries attractive for the purpose, and when they grant credit, they concentrate on the most reliable debtors—who need the money the least. At present, the oil revenues are still being invested short-term, so that no country is immune to a sudden withdrawal of capital.

This all means that the effect of the higher oil prices to date has been that those countries with the biggest deficits are getting the least funds to see themselves through, so that the deflation pressure is reinforced. At the same time, most of the oil money is finding its way to more stability-conscious countries, who nevertheless stick to their restrictive economic policies. Thus the oil crisis is one more reason for the simultaneous appearance of inflation in different countries as well as of the necessary counter measures. Over and above this, it intensified the deflationary pressures emanating from the balance of payments most in those countries where it had already been strongest. When we realise that the risks in the Euro-market are causing increasing repatriation of Euro-dollars, which could easily bring about a cumulative trend toward contraction of Euro-market finance upon which so many institutions and countries depend, it is no wonder many observers fear a world depression on the 1930 scale.

The 1930 depression was triggered by the sudden collapse of the most important financing instruments. The ensuing escalation of unemployment and national protectionist measures ended by destroying the world economic system. The risk of a repetition has now reached the most alarming level since World War II, because we have never seen so many national economies simultaneously stray so far from the path of equilibrium.

#### a grave risk

We are faced, then, by a grave risk of simultaneous and thus cumulative deflation, which could ultimately get out of control, all the more so because of the instability of certain national economies and financial mechanism (Euro-market, commodity markets). In these circumstances it is understandable that the bottom has dropped out of stock markets, contributing further to the general mood of depression.

Can total collapse be averted?

In the first place, two factors are altogether different from 1930. The system of fixed exchange rates has already collapsed. This means that there is no

additional deflationary pressure created by artificially supported exchange rates, as was experienced in the last depression. Second, this critical situation is not hitting us in a state of unpreparedness and euphoria accompanied by excessive speculation; this time the stock markets have already given us a substantial dose of the worst that is likely to befall us. They have done so up to now without any serious signs of collapse. Even in the Euro-market the first steps have clearly been taken along the road to stability; contraction appears to be taking place in reasonable orderly fashion under the now watchful eyes of the central banks. Of course it cannot be disputed that this business slowdown, too, contains inherent risks of financial collapses, but all in all there has been less speculative financing in the recent past than there was before the Great Depression.

### deflationary process

Another ground for hope is that economic leaders have learned from Keynes the dangers of a cumulative deflationary process. Finally, the world's trading nations now realise that any attempts to shift the burdens of recession to their neighbours by protectionist action will recoil on them. There is reason to hope that the nations with the healthiest balances of payments will see that it is in their own interests to provide financial aid to those countries where deflationary pressures from balance of payments deficits would otherwise call for drastic protectionist measures.

One must distinguish between the "old" deficits and those caused by increased oil prices. While old deficits call for gradual elimination through a measured application of classical economic mechanisms, those payment-balance gaps attributable solely to new debt to the oil-producing nations require the recycling of petro-dollars. The world-wide oil deficits cannot be eliminated in a new future, and any attempt to reduce them by deflation would require a depression severe enough to cause a drastic cutback in oil consumption in order to be successful. So the necessity for recycling will only be diminished to the extent that world deficits to the oil producers are reduced as a result of a genuine shift in prosperity to them.

Hopes that limited balance of payment aid will be forthcoming spring not only from the recent credit that West Germany granted to Italy—admittedly under tough terms—and the possibility of other recycling actions within the European Communities, but also on the unmistakable interest of the USA (as

the main beneficiary of investment-seeking funds) to reinforce its position of influence in the western world by means of support transactions. It remains to be seen whether all of this might ultimately convince the oil producers to lower prices, at least in real terms, in order to keep alive the western goose that lays their golden eggs. This would not alter the fundamental problems, but it would make them easier to solve.

At the same time, these hopes—except for a reduction in oil prices—are the preconditions for avoiding a crisis and bringing about zero growth and retrenchment in certain countries and business sectors sufficient to overcome inflation all over the world. This may mean a certain amount of unemployment and company failures. But refusal to be unnerved by this will be just as important as the avoidance of a worldwide cumulative deflation. Inflation has become so strong that much more will be required to overcome it than heretofore. If expansion policies were resumed with the money devaluation rate running in double figures, total collapse would follow at the next upturn. The channel between the Scylla of a cumulative deflation and the Charybdis of a premature abandonment of stabilisation measures is narrow and calls for economic insight and cooperation. But it is possible and, given the fears of a repetition of the Great Depression, even probable that the world can be steered through. Experience suggests that the course adopted will be closer to premature abandonment of stabilisation than to cumulative deflation which means that the struggle against inflation will remain the top priority for years to come.

## V

### Hope Springs Eternal

Assuming that the leaders of the industrial world adhere to the route suggested here, what is the outlook?

The drop in demand will have immediate repercussions, which will be compounded not only by the particular effects of the oil crisis on, say, the automobile industry, but also by the building industry's surplus capacity largely caused by the flight from inflation into real assets. As usual declining demand is felt most drastically in the propensity to investment—which is also curbed by high interest rates typical of inflationary periods. But consumer demand will remain depressed all over the world as well, because of lower disposable income from

monetary depreciation, progressive taxation hitting inflated incomes, and possibility of declining growth in wage increases. Moreover, the fear of depression stimulates saving. All of this adds up to rising unemployment and to growth rates for GNP in real terms fluctuating around zero in all industrialised countries.

### fall in demand

The spontaneous fall off in demand, especially in the capital goods market, will cause a sharper decline in inflation rates than purely statistical considerations would lead one to expect, as soon as the effect of the oil price rise has worked itself through in the coming months. This trend will be reinforced by a drop in commodity prices, which has already begun to take place on the heels of declining demand and which has placed the non-oil producing developing nations in a disastrous squeeze between rising import prices and shrinking export proceeds. The combination of falling demand for capital goods in the private sector, slower consumer demand and a declining rate of inflation is likely to bring world interest rates down. Although this tendency will presumably be kept within narrow limits over a long term because of governmental credit requirements, it is likely to prevail, if only on account of reduced inflation.

More stable prices and lower interest rates could then combine in the second half of 1975 to produce a very cautious revival of industrial investment and consumption, thus leading to a new upturn. But as the economies of most countries are obviously already nearer their natural limits of growth than at any time in the past, and since inflation rates are sure to be still much too high in a year's time to permit the adoption of a boldly expansive policy, we must assume that the upturn will remain moderate. This would, in fact, be welcome in the interest of stability, for even a currency depreciation of between 5 to 10 per cent a year is gravely dangerous if it occurs during a recession.

So I conclude that provided economists in all countries keep prodding their national leaders we can hope to avoid a 1930 depression by the skin of our teeth.

**Sources and acknowledgments:** The foregoing summarises a report published in the latest issue of *Prospects*, the business news survey published by the Swiss Bank Corporation, Zurich, Switzerland, but the bank is responsible neither for the emphasis of my summary nor for any interspersed comments based on a variety of sources.

**Our political scene is** getting curiouser and curiouser. One reason seems to be that very few of the politicians who "strut and fret their hour upon the stage" seem to know their mind. Leaving Macbeth aside it is true that there is something rotten in the state of Denmark. This however does not excuse the plethora of Hamlets which plagues us. Mr Kamaraj, for instance, has no business to be so vacillating. He knows after all that he can have no truck with the DMK, the ADMK or the CPI (M). This means that he or his party (which comes to the same thing in Tamil Nadu) will either have to go it alone or shake hands and make up with Mrs Gandhi's party; the latter course would of course mean that he would also have to put up with the CPI as an additional, even if peripheral, bedfellow. Mr C. Subramaniam, who is apparently one of the few politicians who not only knows his mind but is also quite prepared to speak out, has very rightly called upon Mr Kamaraj to declare his intentions, honest or otherwise, without much more ado. Since plain speaking has become rather rare in our politics these days, his straight-from-the-shoulder stuff has been found hard to swallow by the spinsters in what have come to be known for some obscure reason as our national newspapers.

I am referring particularly to the main editorial in *The Indian Express* of February 4. Mr C. Subramaniam has been accused of issuing an ultimatum to Mr Kamaraj. I fail to see what is so very intrinsically wrong with ultimatums. I should have thought that an ultimatum is just what the doctor ordered for Mr Kamaraj. The man's indecision has made the confusion of Tamil Nadu politics worse confounded. Here is a case of an agonizingly drawn-out *swayanvara* with the would-be bride in an acute state of schizophrenia. Surely shock therapy is the thing in such cases. The editorial in *The Indian Express* suggests that "the contours of the alliances which will fight the next general elections in Tamil Nadu are becoming clear." About time they did, I should have thought. Even political horse-trading must end some time

and if Mr Subramaniam's so-called ultimatum to Mr Kamaraj is really forcing that grand old man of Tamil Nadu politics—who is becoming older but not necessarily grander as the days go by—to come off the fence before February 15 or some such early date, I for one would say that Mr Subramaniam is doing a good turn to Tamil Nadu politics.

## **I am not saying that Mr**

Kamaraj is not having problems. He seems to believe that an electoral understanding or alliance between his party and that of Mrs Indira Gandhi, aided and abetted by the CPI, should be strong enough to dethrone the DMK as well as frustrate the ADMK's bid for power. He is probably banking on the fact that since the DMK and the ADMK will necessarily be fighting each other, even a moderately strong third party should have a good chance of running away with the prize. Mrs Gandhi, probably advised by Mr C. Subramaniam and her party president, Mr D.K. Barooah, however appears to be in favour of playing safe or making assurance doubly sure. Hence her chosen strategy of a grand alliance which could confront the DMK with the combined might or potential of a combination embracing the ADMK, the Kamaraj party and her own, with the CPI thrown in for good measure. Should Mr Kamaraj however insist on her choosing between his party and the ADMK, she may well decide to help herself to the glamour of the MGR image in preference to the possibly more solid virtues of the Kamaraj personality in Tamil Nadu politics.

It may therefore be in Mr Kamaraj's own interest to try to clarify his thoughts sooner rather than later. After all he too may have something to gain by letting his followers know well in time where he (and they) stand. His party has already been considerably demoralized by its years in political wilderness and he would be only straining intolerably the loyalty of the faithful if he keeps delaying a decision on basic strategy for the next general election, which may not come earlier than May but which could come any time in the subsequent nine months. Currently Mr Kamaraj seems to be toying

with the idea of testing what there is for him in the JP movement. Nobody need blame him for this. After all he has been criticizing the functioning of both the central government and the government of Tamil Nadu on grounds similar to those which JP has made the foundations of his campaign in Bihar. There should therefore be no ethical difficulty for Mr Kamaraj in trying to make political capital in Tamil Nadu out of the resentments and discontents activated in the nation by JP's call for a people's struggle against the Establishment. As a matter of fact the Kamaraj party and the JP movement could both gain if they could coalesce in the politics of Tamil Nadu—and there is also some hope that, should this happen, Tamil Nadu also will not be the loser. Which is one more reason why I do not see anything blameworthy in Mr Subramaniam's alleged ultimatum to Mr Kamaraj—assuming that Mr Subramaniam's attempt to pin Mr Kamaraj down persuades or compels the latter to act less like the Prince of Denmark.

## **Mr Derek Davies, the**

Editor of *Far Eastern Economic Review*, passed through a number of countries recently. The distempers of today's world do not seem to have weighed greatly on his spirits. On the contrary he has found much that is funny during his travels and he has chosen the appropriate form of limericks to describe or comment on whatever has appealed to his sense of humour. His sojourn in India's capital, for instance, has yielded the following lines:

Said Indira, sunk deep in gloom:  
"I want them to write on my tomb:  
She grew little food  
But when in the mood  
Made the Rajasthan desert go BOOM!"

Our prime minister could have fared worse since Mr Davies is quite obviously no respecter of prophets, priests or presidents, as some more samples of his versification clearly indicate:

"In Pyongyang it's really a farce  
The Great Leader's been put out to grass.  
He's wearing no smiles  
'Cause he contracted piles  
From the sun shining out of his arse."

"In Rome, as the Pope his mind shuts,  
His ban on the pill drives one nuts.  
'Tsa very big shame  
He no play-a da game  
He no make-a da rules,' opined Butz."

"If a priest wants to play-a da game  
He'll have to shack  
up with a dame  
And act to the full  
Like a real Papal bull  
Not be Papa only in  
name."



# **MOVING FINGER**

# TRADE WINDS

## Curbs on Company Deposits

THE FEDERATION of Indian Chambers of Commerce and Industry has expressed concern over the Reserve Bank's new directive pertaining to company deposits from the public. Its vice-president, Mr Harish Mahindra, has described the directive as "inopportune", particularly when a study group appointed by the Reserve Bank itself is already examining all the related issues. In a press statement, Mr Mahindra said that the new restrictions would result in denying funds for financing increased output at a time when trade and industry has been badly hit by credit squeeze. It is a moot point as to whether those who are not allowed to deposit their funds with companies will necessarily make them available to the banking system or the public sector which, according to the latest reports, will be permitted to take deposits from the public. The chances are that these funds may be frittered away in non-productive uses. The only result might be that the corporate units will be denied a useful source for financing increased output.

## Seminars on Trade Expansion

A team of ten experts from the European Economic Community Commission arrived in New Delhi recently to take part in a series of seminars on EEC's Generalised Scheme of Preferences in four Indian cities organised by the Indian Institute of Foreign Trade. Under the Generalised Scheme of Preferences, the EEC allows imports of manufactured and semi-finished goods from developing countries, including

India. The scheme has been in operation, and governs India's exports to the EEC, since January 1, 1971. Discussions took place between the Indian authorities, other interested countries and the EEC last year which led to an improvement in the terms of the scheme for 1975. However, it was felt that the terms of the GSP were not sufficiently widely known throughout India to enable actual and potential Indian exporters to benefit fully from the scheme. The matter was discussed at the meeting of the Indo-EEC Joint Commission held in December last year, and it was agreed that the EEC would take part in a series of seminars in India and publish brochures to assist Indian exporters to make better use of the scheme.

The European Community has already established itself as India's leading trading partner in the world. In 1973-74, India exported goods worth Rs 594.3 crores to the member-countries of the EEC, or nearly 25 per cent of her total exports; and her imports from the same source were worth Rs 683.1 crores, or nearly 24 per cent of her total imports. Indications are that in the current year Indian exports are doing considerably better.

## Dakar Conference on Trade

A delegation led by deputy Commerce minister Mr Vishwanath Pratap Singh represented India at the conference of non-aligned countries in Dakar, Senegal, to discuss problems relating to international trade in raw materials and commodities. The conference, which was held in the first week of this month, was the outcome of a decision

taken by the Foreign ministers of the non-aligned countries in Algiers in March, 1974. Commerce Secretary, Mr Y.T. Shah, was the alternate leader to the conference. Developing countries, which were not members of the non-aligned group, were also invited to attend. The Indian delegation played an active role in the proceedings. It made an attempt on equitable solution to the basic problems of trade in commodities which are of interest to all developing countries, including India. The Indian delegation also proposed that a programme should be adopted by the non-aligned countries to double the growth of trade exchanges between developing countries themselves. This directive about doubling trade exchanges was given at the non-aligned summit held in Algiers. The goal is to be achieved by extending preferential treatment for trading and industrial activities. India is among the hardest hit countries, following the steep increase in prices of food, fuel, fertilisers and other industrial raw materials. On the other hand, India's exports such as tea, and iron ore, could not get sufficiently high prices in the world market.

## Indo-Australian Cooperation

India and Australia are expected to conclude a trade agreement by the middle of this year. This is indicated in a joint press release issued at the conclusion of the visit of Mr Frank Crean, the Australian minister of Overseas Trade, from January 26 to February 1, at the invitation of the union Commerce minister, Mr D.P. Chattopadhyaya. The statement said Mr Crean referred to the scheme of the Australian government for rendering market assistance to Indian exporters and asked Indian exporters to take full advantage of the scheme. Mr Chattopadhyaya referred to the excellent market in Australia for Kolhapuri chappals and expressed apprehension over the measures taken by Australia to curtail the import of footwear. Mr Crean appreciated

the problem and promised sympathetic consideration. The prospects of Indo-Australian cooperation for the development of the wool industry were examined. Mr Crean hoped that India would expeditiously approve the project so that Australian collaboration could assist in increasing the export of wool products from India. The two ministers expressed satisfaction at the outcome of the meeting of the preparatory committee of senior officials of the group of iron ore exporting countries in New Delhi last month where unanimity of view was achieved.

## Assistance from Japan

Japan is to provide financial aid to India totalling Rs 51.9 crores for 1974-75. The aid consists of a commodity loan of Rs 19 crores and debt relief amounting to Rs 32.9 crores. Notes relating to the new financial aid were signed in Tokyo between Mr S.T. Than, Indian Ambassador in Japan, and Mr Y. Katori, Director-General of the Economic Co-operation Bureau of the Japanese ministry of Foreign Affairs. The new yen credit is the fourteenth extended by Japan to India since 1958. In addition, the second fertiliser project loan that will constitute a part of this credit is currently under negotiation between the two governments. The commodity loan will cover payments to Japanese exporters for the purchase of steel, chemicals, machinery, power tillers, fertilisers and other raw materials. With the present agreement coming into force, the loans extended by Japan to India since 1958 total Rs 888.9 crores.

## Trade with Yugoslavia

A ministerial-level meeting of the Indo-Yugoslav Commission is being held in New Delhi in the middle of this month to review economic cooperation as well as trade relations between the two countries. Yugoslav vice-premier and minister of Foreign Trade will lead his country's delegation and Commerce minister Mr D.P.



Chattopadhyaya will lead the Indian delegation. Trade between the two countries under rupee payment which showed a decline from about Rs 30 crores in 1971-72 to Rs 20 crores in 1972-73 has now appreciably increased after the switch over to free foreign exchange system. In 1973-74, the turnover was Rs 31.4 crores. Indian imports from Yugoslavia consist mainly of ships, parts and components of crawler tractors, capital goods, iron and steel bars and rods, drugs and pharmaceuticals and chemicals. The joint committee is likely to consider possibility of Yugoslavia supplying India fertilisers, mercury and zinc.

### Exports by Air

The government has decided to encourage exports by air. For this purpose, a high-level standing co-ordinate committee for the promotion of exports by air (scope-air) has been set up. The committee, headed by Mr R. Tirumalai, Additional Secretary, ministry of Commerce, includes representatives of the Central Board of Excise and Customs, Airport Authority, Air-India, Indian Airlines, State Trading Corporation, and the Air Cargo Agents Association of India. The committee had two sittings—one at Delhi and the other at Bombay. The next sitting is proposed to be held at Madras. According to its terms of reference, the committee will explore ways and means of setting up air cargo processing centres at the four major international air-ports—Delhi, Calcutta, Madras and Bombay—to help exporters secure certification, inspection and customs clearance on the spot before the cargo is air-freighted. Air transportation has many advantages, such as speedy delivery, avoidance of pilferage and customer satisfaction. Exports by air increased from Rs 90 crores in 1970-71 to Rs 265 crores in 1973-74, and are expected to go up further in 1974-75.

### Rupee-Rouble Parity

The Indian rupee's exchange value in relation to the Soviet rouble has declined. Accord-

ing to the USSR State Bank's bulletin of exchange rate for February, one hundred Indian rupee is now worth 8.88 roubles as against 9.09 in January. The value of the pound sterling to which the rupee is tied also came down from 1.66 roubles to a pound in January to 1.60 roubles. The rates are operative for current transactions. It is Moscow's contention that they would not affect Indo-Soviet trade as prices under the existing protocol are fixed in Indian rupees. The Soviet government revalued the rouble against the US dollar by three per cent. The rouble now is quoted at 70.50 US cents as against 73 cents last month, this means it takes nearly \$1.42 to buy a rouble as against \$1.37 previously.

The transferable rouble, COMECON's currency for multilateral clearing, is open for use by third countries including India as medium of settlement of trade with these countries, according to the Managing Director of COMECON's Bank for Economic Co-operation. India's trade with the socialist countries who are members of the COMECON is carried on in rupees with the exception of Poland, which recently went over to clearing US dollar. It is open for India to unify clearance of the whole or part of its trading accounts with the COMECON in transferable roubles.

### Taxation Agreement with Afghanistan

The draft of the proposed agreement on avoidance of double taxation between India and Afghanistan in respect of profits of enterprises operating aircraft in international traffic was initiated recently by the leaders of the delegations of the two countries. The draft will now be submitted to the respective governments for their approval.

### World Steel Output

According to preliminary figures compiled by the International Iron and Steel Institute the world produced more steel in 1974 than ever before.

With an aggregate figure of 710.11 million tonnes, steel production last year showed a 1.9 per cent or a 12.95 million tonne increase over 1973. The USSR produced 136.3 million tonnes to return to first place which it occupied in 1972, followed by the USA (132 million tonnes) Japan 117.14 million tonnes, West Germany (53.23 million tonnes) and France and China (27 million tonnes each). The nine EEC countries produced an aggregate of 155.67 million tonnes.

After a monthly peak of 42 million tonnes in October 1974, the December production figure of 38.2 million tonnes for the 24 ISI countries shows a noticeable decrease on the 40.44 million tonnes produced in December 1973, some steel industries having been affected sooner than others by a general slow down of demand in particular in Belgium (18.5 per cent), Japan (8.6 per cent), UK (7.1 per cent) and the USA (13.6 per cent) where a coal strike also affected the rate of production.

### Assistance for Drought Prone States

The union government has, as a special case, decided to give Rs 55 crores to the drought-affected and flood-ravaged states of Gujarat, Rajasthan, Madhya Pradesh, Orissa, West Bengal and Assam. However, this amount would be adjusted against the Centre's contribution towards the development plans of these states for the next financial year. While agreeing to this ad hoc assistance, the Centre is understood to have told all the states, including those affected by natural calamities, that it should not be treated as a precedent for the future. It is no more than a one-time exception. New Delhi has also reiterated that the states should try to raise additional resources by raising power tariff and water rates, enforce collection of betterment levy and impose a tax on agricultural incomes as recommended by the Raj committee some three years ago.

The centre also warned the states against any diversion of these funds. They are enjoined to use these either for undertaking new medium and major irrigation projects or for expeditiously completing those which are in hand at present.

### State Plans

The 1975-76 Annual Plan outlays of 16 states, so far finalised by the Planning Commission, show an overall increase of Rs 370 crores over the approved outlays for the previous year. The central assistance to state having been pegged at the current year's level, these states will have to allocate extra resources for the Plan out of their budgets, through measures for additional resource mobilisation, increased market borrowings and collection of tax arrears. Large increase have been agreed to by the commission in the case of Maharashtra (Rs 75 crores), Madhya Pradesh (Rs 63 crores) and Punjab (Rs 56 crores). Maharashtra's outlay includes a provision of Rs 50 crores for the state government's employment guarantee scheme. The Punjab outlay is bigger than what originally proposed by the state government. The commission has approved the outlays of all but five states, namely UP, Tamil Nadu, Karnataka, Himachal Pradesh and Manipur.

### Eastern Zone Meet

Inaugurating the zonal conference of the civil supplies ministers of eastern states in Calcutta recently, Mr A. C. George, minister of State for Industry and Civil Supplies, stated that out of the sixty essential items of mass consumption identified in the distribution scheme, nearly fourteen commodities like foodgrains, sugar, standard cloth, vanaspati and fuel were vital for the people. These would be given top priority in the new distribution scheme. Mr George felt that the state governments had a very important role to play in implementing this ambitious scheme for making available essential commodities to the people.

That was the purpose for which the zonal conference had been convened. Although the task was not easy, he was confident that, with the cooperation of the state governments, steps would be taken shortly to implement the scheme. Outlining the scheme, the minister suggested that the consumer co-operatives all over the country could be used to great advantage in the proper distribution of essential consumer goods. Initially, the scheme, he disclosed, would cover the metropolitan cities and towns with a population of five lakhs or more. Industrial areas with concentrations of workers' population could also be included.

### Sugar Price

Ex-factory price of levy sugar of 1974-75 production were notified on November 28, 1974. The government have reviewed the position taking into account the need to ensure the securing of a reasonable return on the capital employed in the business of manufacturing sugar in the context of sugarcane prices, the increase in the manufacturing cost of sugar arising mainly from revised wages, higher interest rates etc. and the anticipated higher realisations of the factories from disposal of levy-free sugar.

Keeping in view the need for maintaining the present falling trends in prices of essential commodities, it has been decided that there should be no change in the ex-factory prices of levy sugar but that the ratio of levy sugar to free sale sugar should be revised from 70:30 to 65:35 for the 1974-75 season.

The union government announced that the ratio of levy sugar to free sale sugar for 1974-75 season would be 65:35, instead of 70:30 which had been the ratio ever since free sale was allowed some years back.

Meanwhile, the UP government has decided to procure nearly 20,000 tonnes of white crystalline khandasari sugar through a 33 per cent levy on

open pan-khandasari units in the state with immediate effect, at the rate of Rs 200 per quintal.

In a statement to the press, Mr P. Maruthai Pillai, President, Indian Sugar Mills Association has expressed great disappointment at the government's announcement not to revise the levy sugar prices for the current season. No doubt, government have recognised the legitimate demand of the industry for higher levy prices due to sharp cost increases caused mostly by statutory provisions. Besides, higher cane prices fixed by the government, the rates of cane cess and purchase tax have also been increased by the state governments. Further, there has been substantial increase in the wages. The current interest rates too are higher by 60 per cent than those adopted by the Tariff Commission. Furthermore, there is an all-round sharp increase in the prices of essential raw materials and stores. Mr Pillai regretted that in the face of such sharp cost escalations the relief proposed by way of additional five per cent free sugar was in no way commensurate with the cost increases, and would create an erroneous impression that the factories have been adequately compensated.

### Entrepreneurship in Education

The National Alliance of Young Entrepreneurs organised a workshop on 'Entrepreneurship in Education' in collaboration with National Youth Forum and Small Industries Service Institute on February 1, 1975. The Workshop was attended by over 100 Principals of the Colleges and office bearers of the student unions besides senior officials of the union government and Delhi Administration. The Workshop endowed a programme for introducing stream of entrepreneurship in educational system and to form business groups in the colleges to be run and administered by the students. NAYE proposes to organise Industrial Entrepreneurship Acclimatisation course during

the Summer Vacations for the benefit of selected boys and girls from 100 Educational Institutions in the country as a pilot project. During this course, the participants will be staying at Industrial Estates or Industrial Areas for a period of three weeks to acquaint themselves with the planning, setting, up and management of small enterprises.

### Railway's Record

The Railways have surpassed all previous records in wagon loading during January 1975, according to an official Press release.

On an average, 23,179 broad gauge wagons were loaded daily with freight traffic. This is the highest figure ever achieved in any year in the month of January. In January 1974, 20,864 broad gauge wagons were loaded every day.

The daily average loading on

the metre gauge was 5,780 wagons during January 1975 as against 5,874 in January 1974.

The Railways also achieved a record daily average loading of coal during the month. Surpassing the previous best figure of 8,735 wagons achieved in February 1969, the Railways loaded, on an average, 8,901 wagons of coal daily during January 1975.

The loading of iron ore for export was more than the month's target of one million tonnes, it is claimed.

### Names in the News

Mr Baburaoji Parkhe, a renowned industrialist of Poona has recently been co-opted as a Director on the Board of Directors of the United Western Bank, Ltd., Satara, in the vacancy caused by the retirement of Mr G V. Palkar.



DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS  
DISPOSALS WING: COMMODITY SECTION

Parliament Street, New Delhi

## TENDER PROGRAMME

FOR THE MONTH OF FEBRUARY, 1975

1. CPM/544042/18 due on 27.2.75 at Sewak Base Depot, Dimapur (Nagaland). Stores : Road-Roller AJ-EM No. 1108-X fitted with Diesel engine—1 No.
2. CPM/544009/18-Split due on 28.2.75 at Sub-Divn. IV, (Road machinery section) PWD IV, PWD St, Inez, Panaji, Goa. Stores : ABG-Werke, Road Roller 1.5 Tons, Diesel engine—1 No.
3. DGS&D/SVH/VH/507541-53/21, 22, 23, 24 due on 26.2.75 at VSD, Meerut. Stores : Vehicles i.e. Ly. 3 Ton TMB S Baker Motorcycles R/E Nissan Car Willys, Dodge Tractors etc.—195 Nos.

Tenders will be received and opened at 2-30 p.m. and 3.00 p.m. respectively on the above dates.

Offers will remain open upto 29.4.75 for Serial Nos. 1 & 2 and 28-4-75 but not less than upto 28-3-75 for Serial No. 3

Each tender must be accompanied by two Deposit-at-Call Receipts—each representing 5% of the tendered value as (i) Earnest Money and (ii) Security Deposit subject to maximum amount of Rs. 1 lakh. Tender forms and details can be had from the Cashier, DGS&D, New Delhi, Director of Supplies and Disposals, Calcutta, Bombay, Madras and Kanpur @ Rs. 5 (non-refundable) per set (non-transferable) in Cash or by M.O.

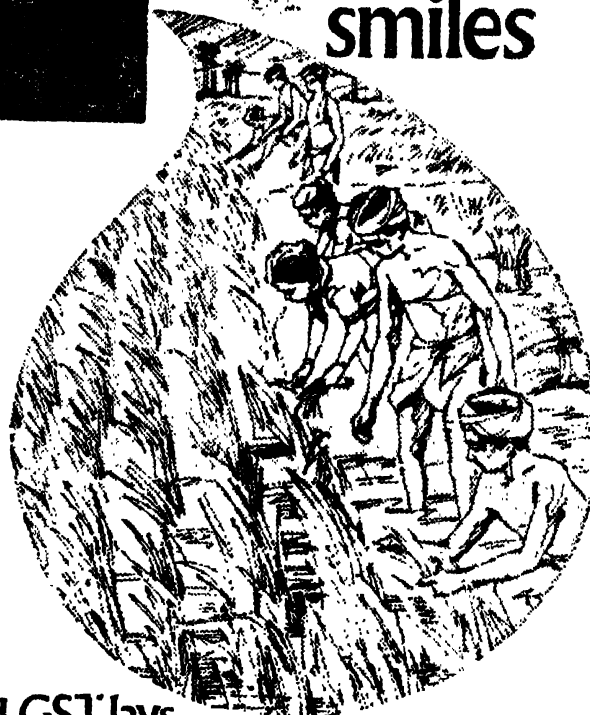
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—dasp 74/439—



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# COMPANY AFFAIRS

## Further Erosion

DULL TRADING and a further erosion in equities marked trading on the stock exchange last week. Reports of good rabi crop prospects, improvement in industrial production and indication of liberalisation in licensing procedures failed to cheer up marketmen. The market sentiment, on the other hand, was depressed by such reports as the introduction of a bill imposing ceiling on urban property in the Budget session of Parliament, pruning of annual plan allocation and fears of heavy taxation in the approaching central budget. Consequently the business turnover was moderate, with equities moving both ways.

Prices of selected leading scrips declined sharply in Dalal Street on nervous bull unloading and long liquidation. On the whole sellers had an upper hand due to persistent offerings during the week. The week concluded on an easy note. The volume of business was restricted. The Calcutta Stock Exchange turned gradually easy during the week under review with previous gains being partially wiped off. While investors kept away from the market, institutional buyers were scarce. Intermittent short covering and scarcity of floating stocks at times helped a mild recovery but gains could not be sustained due to bear pressure as well as lack of follow up support. A mixed tendency marked the week's moderate trading on the Madras Stock Exchange.

## Consolidated Coffee

Consolidated Coffee Ltd has reported substantial improvements in its working results during the year ended June 30, 1974. Its sales including gross

income, recorded a smart rise Rs 7.36 crores from Rs 6.52 crores while gross profit went up to Rs 147.12 lakhs, registering a handsome increase of Rs 46.25 lakhs over 1972-73. The net profit, after providing for taxation, too was higher at 64.57 lakhs as compared to Rs 58.37 lakhs in the preceding year. After deducting Rs 1.17 lakhs, being the amount already disbursed for payment of preference dividend and making other adjustments, the disposable surplus amounts to Rs 62.75 lakhs as compared to Rs 61.79 lakhs in 1972-73. Out of this a sum of Rs 3,621 lakhs was transferred to development rebate reserve, Rs 57.07 lakhs to general reserve No. 1 and Rs 5.65 lakhs to general reserve No. 2 as against Rs 5,260, Rs 29.34 lakhs and Rs 32.40 lakhs provided respectively in 1972-73.

During the year 7,15,498 bonus shares of the face value of Rs 71,54,980 were issued by capitalisation of general reserves in the ratio of two shares for every five shares held. The total issued and paid-up capital now stands at Rs 269.17 lakhs. The director have recommended a dividend of 12 per cent on the equity capital as enhanced by the bonus issue as compared to 18 per cent declared in the preceding year on the capital before the bonus issue. The dividend recommended for 1973-74 is the maximum permissible under the dividend ordinance.

## Baroda Rayon

Sales of Baroda Rayon Corporation have nearly doubled in 1974 to Rs 19.44 crores from Rs 10.01 crores in 1973. Output of rayon yarn went up appreciably from 4280 tonnes to 4301 tonnes, while

its sales improved substantially to Rs 11.39 crores from Rs 9.68 crores in 1973. The nylon yarn plant which was commissioned in February 1974 account for an output of 821 tonnes and added Rs 7.51 crores to the turnover. It is expected that the nylon yarn unit will be stepping up its output to 1800 tonnes in 1975.

The project for manufacturing nylon tyre cord with a capital outlay of Rs 12 crores will be undertaken for implementation shortly. Technical collaboration with Unitika of Japan has been obtained. It has also received the clearance from the government for the import of plant and machinery. The possibilities for using different types of woods for manufacturing Rayon grade pulp has been explored and the process developed by the company is being tested in the national laboratory. The company has also in hand a letter of intent for setting up a cellulose film unit. Steps are being taken to implement the scheme in collaboration with Travancore Rayons.

## Vazir Sultan

Vazir Sultan Tobacco Company Ltd has received the consent of the Controller of Capital Issues for making a rights and public issue amounting to Rs 283.2 lakhs in 17,70,000 shares of Rs 10 each at a premium of Rs 6. The issue is being made with two major considerations. One aim is to encourage Indianisation and through this capital reorganisation the foreign shareholding in VST will be reduced to a minority i.e. below 40 per cent. Besides the additional capital raised will be utilised for financing its diversification programmes which will open up for the company a whole range of new activities.

As the cigarette business is in sound shape the company is seeking growth in non-tobacco areas which, if successful, will be an insurance for the future of generating income from other sources. In pursuance of this policy the company is branching out into the field for the manufacture of leather and leather goods. The management feels that to ensure success in its diversification plan it will be necessary to enter into a high priority sector which fits in with the development plans of the central government and by the nature of priorities provides for preference in raw materials, import licences and support by financial institutions. Negotiations for such a project have already reached an advanced stage. Details regarding the project will be made known after receiving all clearances from the concerned authorities.

Meanwhile the company has reported quite encouraging working results during the year ended September 30, 1974. With a longer expansion in turnover from Rs 61.09 crores to Rs 74.19 crores, profit before tax too recorded a handsome rise to Rs 341 lakhs from Rs 273 lakhs in 1972-73. The profit after tax was also substantially higher at Rs 93 lakhs as compared to Rs 90 lakhs in 1972-73. After transferring a sum of Rs 4.40 lakhs to development rebate reserve and Rs 64.26 lakhs to general reserve, a final dividend of 12 per cent has been declared absorbing Rs 24 lakhs. The board of directors would have declared a dividend of 25 per cent but it was not possible because of the 12 per cent maximum permitted under the dividend ordinance. It is the intention of the company to revert to 25 per cent as soon as the restriction is removed.

## Mangalore Chemicals

Mangalore Chemicals and Fertilizers is about six months behind schedule. It hopes to commission its ammonia plant May 1975. Urea

is expected to be produced by the end of June or early July. The delay of about six months has resulted in raising the project cost by Rs 7.92 crores. This overrun in project cost will be met by additional long-term loans of Rs 4.92 crores from financial institutions and short-term bridging finance of Rs 3 crores from banks. The directors feel that the rise in overall project cost and higher prices for naphtha and fuel oil will be compensated to some extent by higher ex-factory sales realisations following the enhancement of the statutory medium retail price for urea. The project's profitability and cash generation potentials, according to the directors, therefore, continues to remain as attractive as originally estimated. The company will get the benefit of full development rebate of over Rs 9 crores.

### Holiday Inn

The country's first Holiday Inn was opened in Agra last month. It will be entirely owned and operated by Northern India Hotels Ltd. This hotel has been built in collaboration with the world's largest hotel chain, Holiday Inn Inc, which has almost 1700 hotels in over 40 different countries. Situated on the main highway to Kanpur Holiday Inn offers a grand and clear view of the famous mausoleum from sixty per cent of its rooms. It has 84 rooms, each room well-furnished, with attached bath, telephone and 4-channel music. The Holiday Inns, world over, have earned reputation for their hospitality and distinction for guest service. Now Agra too has a Holiday Inn which combines the expertise of the west and the traditional hospitality of India. It goes without saying that Holiday Inn is ideally suited for group travels, conferences, seminars and special functions, offering every comfort and convenience, if Agra is chosen as the venue.

### Volta

Volta limited and a French chemical group Rhone-Poulenc have formed a new company styled Volrho Limited.

This new company will manufacture phosalone, an organo phosphatic pesticide at patancheru in Andhra Pradesh. Phosalone has been found very effective for the treatment of a number of crops particularly cotton and tea. It has been extensively field tested in our country with encouraging results. While manufacture of Phosalone formulation will commence in 1976 from imported technical material, the plant for manufacturing technical phosalone with a capacity of 1000 tonnes per year is expected to be completed by 1977.

### Walchandnagar Industries

Walchandnagar Industries has reported satisfactory working results for the year ended September 30, 1974. Its turnover increased by about 32.4 per cent to Rs 21.85 crores from Rs 16.50 crores while gross profit went up only by about five per cent to Rs 1.42 crores from Rs 1.36 crores in 1972-73. The directors have proposed a lower equity dividend of 7.7 per cent as against 12 per cent declared for the previous year. Out of the gross profit, the directors have set apart a sum of Rs 48.36 lakhs to depreciation reserve as compared to Rs 43.30 lakhs in 1972-73, while the allocations to development rebate reserve was enhanced by Rs 2.01 lakhs to Rs 6.51 lakhs. An amount of Rs 38.60 lakhs was earmarked for meeting taxation liabilities as against no provision in the earlier year. The net profit out of these allocations amounted to Rs 48.71 lakhs as compared to Rs 88.62 lakhs in the previous year.

### Khandelwal Ferro Alloys

Khandelwal Ferro Alloys has fared extremely well during 1974 with turnover, gross profits and profitability recording impressive improvements over the preceding year. Turnover during 1974 registered a sharp rise to Rs 17.77 crores from Rs 13.69 crores while gross profit jumped to Rs 1.58 crores from Rs 1.09 crores in the preceding year.

The ratio of gross profit to turnover too moved up from nearly eight per cent to about nine per cent. The directors have proposed an equity dividend of seven per cent on a larger capital resulting from two-for-five bouds issue. This is the maximum permissible dividend under the dividend ordinance.

In 1973 the company declared a dividend of 12 per cent. Out of the gross profit, the directors have appropriated a sum of Rs 29 lakhs to depreciation reserve as against to Rs 34 lakhs in previous year while taxation absorbed Rs 76 lakhs as compared to Rs 49 lakhs in the earlier year. The net profit after these allocations amounted to Rs 52 lakhs as compared to Rs 25 lakhs in 1973. Commenting on the prospects, the directors state that the export market for ferro manganese continues to be good and that the outlook for the tube mill will depend on the availability of raw materials.

### American Express

Estimated consolidated net income of American Express Company and its subsidiaries in 1974 increased to a record

\$156.8 million compared with \$150.9 million in 1973. Net income per common share was up 4.3 per cent to \$2.18 per share from \$2.09 per share in 1973. The year was the 27th consecutive one in which American Express Company has reported increases in consolidated net income and net income per share (before extraordinary credits in certain prior years). It was also the first time in the Company's 124-year history that operating revenues exceeded the \$2 billion mark. For the year total income from Travel and Financial Services (other than Insurance) was up 28.1 per cent to \$82.5 million from \$64.4 million. Total income of Insurance Services for the year was \$74.3 million, down from \$86.5 million.

Commenting on the working results Mr Howard L. Clark, chairman and Chief Executive officer, said "The encouraging aspect of an extremely challenging year was the consistent strength of Travel Related Services and American Express International Banking Corporation, despite worldwide inflation, recession and the energy crisis in 1974. The basic fact remains that both



CMV-47-102

Travelers Cheques and Card achieved new records in sales and they, along with American Express International Banking Corporation, also achieved new record earnings. The year's results demonstrate the underlying strength and balance of American Express since the highly satisfactory increases in earnings by the Travel and Financial Services businesses offset a cyclical decline in consolidated earnings of the Insurance subsidiaries." Travelers cheque sales were impressive throughout the year and this upward trend continued to strengthen in the fourth quarter and into the first three weeks of 1975. Outstandings increased to over \$ 1.2 billion, up by 9 per cent over 1973. A substantial part of these outstandings have been invested in long-term, tax-exempt securities at the record high levels of interest rates in 1974.

## News and Notes

The IDBI has refused permission to Vardhaman Spinning and General Mills for issuing one-for-one bonus shares though the company has received the sanction from the Controller of Capital Issues for the same. The company is approaching the IDBI again for its permission.

The National Radio & Electronics Co. Ltd. (NELCO) have placed on the market a new range of electronic calculators. The new product line, which is called the "Sigma Series", includes basic and memory calculators with several additional features and an advanced scientific calculator the IC-99S which will be of benefit to the scientific and engineering community. The Sigma Series of calculators are being marketed by NELCO directly.

Ashok Leyland has obtained an order for 80 industrial engines from Philippines. The total value of this order is Rs. 14 lakhs. This is the first time that Ashok Leyland products are being exported to Philippines. Early deliveries, competitive prices and superb quality of the company's products have contributed in obtaining this order. The first

lot of 20 Engines has already been shipped, and the entire order is expected to be completed by March 1975. It is significant to note that Ashok Leyland, after achieving significant breakthroughs in the African countries, is now entering one of the most developing markets in the south east Asia.

## New Issues

**Camphor and Allied Products Ltd** is offering to the public for subscription 5000 convertible bonds of Rs 1000 each at par, carrying interest at the rate of 10 per cent per annum payable half yearly on June 30 and December 31 each year. The subscription list for this fully underwritten issue opens on February 10 and will close on February 20 or earlier but not before February 13. The novel features of the bonds issue are that the bondholder will have, within the period of six months prior to the expiry of the fifth year from the date of allotment, an option to convert each of his bond into three equity shares of Rs 100 each at a premium of Rs 100 per share and obtain a cash refund of Rs 400. The bond, subject to the right of conversion, will be redeemable at par on the expiry of 10 years from the date of allotment.

In case a bonus issue is made by the company on or before the last date for conversion, the entitlement on bond-holder will increase from three shares in the same proportion in which the equity capital of the company is increased by the issue of such bonus shares the fractions arising on such increase being regulated in terms of the bonus issue. The premium on such equity shares and the amount to be refunded will also be correspondingly changed. Similarly in the case of a rights issue, the amount of premium would be liable to be changed suitably. The convertible bonds thus combine the best features of equities and fixed income securities and is an ideal of form of investment in the existing conditions. It assures the investor with a regular

income, provides a hedge against inflation and gives liquidity to his holdings.

The company has embarked on a massive expansion and diversification programme. The capital outlay on this project is estimated at Rs 1.46 crores and a part of this cost will be financed from the proceeds of the present issue. The company has already made considerable progress in the implementation of this project. The equipment for the CP resin plant and new distillation column and change in the process of manufacture of camphor has already been installed and commercial production has been started. As for as the PMHP and sodium acetate plants are concerned, orders for machinery have been finalised. The entire equipment, imported as well as indigenous, are expected to be received by the end of May and trial production is expected to commence by June 1975.

**Sundaram Abex**, a company promoted by the TVS group of Madras, is setting up a project at Padi, Tamil Nadu for the manufacture of organic friction, materials. This project is being set up in collaboration with Abex Corporation of the USA. To raise part of the resources required for the implementation of this project the company will soon

be offering to the public for subscription equity shares worth Rs 30 lakhs, all in equity shares of Rs 10 each at par. The capital outlay on the project is estimated at Rs. 1.61 crores. It will be financed by the share capital of Rs 75 lakhs, medium term loans and deferred payment guarantee of Rs 61.10 lakhs and loans and deposits of Rs 25 lakhs. The Indian promoters will subscribe to shares to the tune of Rs 22.50 lakhs while shares worth Rs 22.50 lakhs will be allotted to Abex Corporation against the supply of plant and machinery.

Organic friction material are used in transport industry as brake linings for vehicles. A study of the market potential indicates that the demand for these materials will be doubled by the end of the fifth Plan. As against the present licensed capacity of 4415 tonnes of brake linings, demand has been estimated at 5300 tonnes by 1975-76 and 9200 tonnes by 1979-80. The company's licensed capacity is 1500 tonnes. Though the company will have to face stiff competition from such manufacturers as Hindustan Ferodo, Rane Brake Linings and UNI-Abex Alloy Products, the management does not anticipate any difficulty in marketing its products. Hence the projects, by all counts, is a profitable venture with good growth prospects.

## Dividends

(Per cent)

| Name of the company Year ended        | Equity dividend declared for |               |
|---------------------------------------|------------------------------|---------------|
|                                       | Current year                 | Previous year |
| <b>Higher Dividend</b>                |                              |               |
| Nonsuch Tea Estates June 30, 1974     | 12.0                         | 10.0          |
| <b>Same Dividend</b>                  |                              |               |
| Madan Industries June 30, 1974        | Nil                          | Nil           |
| Megna Mills Co. March 31, 1974        | Nil                          | Nil           |
| Pulgoan Cotton Mills June 30, 1974    | Nil                          | Nil           |
| <b>Reduced Dividend</b>               |                              |               |
| Shree Madhusudan June 30, 1974        | 5.0                          | 10.0          |
| Western India Plywoods March 31, 1974 | 7.0                          | 17.0          |
| West Coast Paper June 30, 1974        | 12.0                         | 13.0          |
| Sirpur Paper June 30, 1974            | 8.5                          | 10.0          |
| Standard Batteries June 30, 1974      | Nil                          | 12.5          |
| Excel Industries Sept. 30, 1973       | 16.0                         | 12.0          |

## COMPANY MEETINGS

# SUDARSAN TRADING COMPANY LIMITED

Registered Office : CALICUT-673 011.

## ANNUAL GENERAL MEETING

Speech delivered by Maj. Gen. D. C. Misra, M. C. (Retd.), Chairman, at the Annual General Meeting of the Company held at the Conference Hall, 'Sudarsan Building', Chakkorathkulam, Calicut-673011 on Friday, the thirty-first day of January, 1975 at 3 O'Clock in the afternoon.

Gentlemen,

I am very happy to welcome you to this, the Fifteenth Annual General Meeting of your Company.

The Report of the Directors and the audited Accounts have been submitted to you already. With your approval I shall take them as read.

As you would have observed from the Directors' Report, 1974 was a year of measurable progress for all the Constituent Units of your Company in spite of the depressed economic conditions in the country.

During the past year, the Indian economy was subjected to Himalayan strains. Droughts and floods caused their usual devastation. A deteriorating power situation and sky-rocketing oil prices further served to play havoc on all sectors of the economy. Prices of even the essentials of life continued to shoot up, spreading misery and disaffection.

All these pose a threat to the way of life we have so arduously built-up in the last 25 years. But I am sure that under the leadership of our esteemed Prime Minister, Smt. Indira Gandhi, we shall weather the storms and get back to the sunlit uplands of stability and prosperity before long.

Reverting to our own operations, the year under review was again a period of uninter-

rupted progress. Profits of the Company, after providing for depreciation and other operating expenses was Rs. 28,22,091/-.

The segregation of the Chit business from other activities has proved to be a great success. The fully owned Subsidiary, Sudarsan Chits (India) Limited, which we had setup for this purpose, commenced business on May 1, 1973. It had imparted a measurable sense of purpose and efficiency to our Chit Fund business. The total business procurement during the year touched new records. That this should have been possible against a backdrop of general economic distress shows what an important role Chit Funds play in the country today. They meet vital credit needs of society, especially those sectors of Society on whom institutionalized sources of credit have wittingly or unwittingly turned their back. With over 100 Branches spread throughout the country, our Chit Funds have been providing direct employment to several thousands, in addition to activating innumerable opportunities of employment in avenues like agriculture, small and medium industry, trade and commerce which are constantly serviced by the Chit Funds. The Share-holders will kindly recall that our Company had humble beginnings just about two decades

ago. By dint of hard work, prudence and careful management it had the good fortune to obtain a pre-eminent position in the field of Chit Funds. Of late, we have been diversifying our activity to include industry, agriculture, hoteliering and exports. The Sudarsan group is proud that today it provides stable employment to thousands of persons.

Incidentally I am to take the Share-holders into confidence about certain facts. Shri Velayudhan, our Managing Director has been at the helm of affairs of this Company since 1956, when it started as a small partnership firm and was eventually converted into a Private Company and later into a Public Company in 1965. The phenomenal progress that your Company achieved during the short span of life is directly

due to the personal dynamism of its Managing Director. His organisational ability, foresight and sincerity of purpose have borne fruit in the form of steady and laudable progress as indicated in the performance figures furnished below:

Recently the legislation governing the conduct of Chit Funds have been enacted in the Union Territory of Goa and the State of Maharashtra. Although there was talk of introduction of uniform All India legislation, at the moment the statutes vary from State to State with the result an All India Organisation like ours has to meet the requirements of law in various measures at the same time. We have been endeavouring to focus the attention to the authorities to the fact that the Tamil Nadu Chit Funds Act, which was also adopted in the Union Territory of Delhi, is the ideal piece of legislation to be followed uniformly, and our effort so far have met with little success. We have been continuing to plead with the Union Government for national legislation to control and regulate Chit Funds. We have reasons to believe that the Government of India is seriously considering the suggestion.

With its simple and rural origin Chit Funds were being conducted in ancient days by individuals who were being held in esteem in society. As you know, it is your Company that gave the ancient and completely indigenous institution of Chit Funds a modern frame-work and as-

| Year ended | Paid-up Capital | Reserves    | Turn-over (Gross income during the year.) | Net Profit  |
|------------|-----------------|-------------|-------------------------------------------|-------------|
| 31-7-1965  | 20,000/-        | 2,773/-     | 15,55,648/-                               | 1,06,978/-  |
| 31-7-1966  | 5,26,325/-      | 32,773/-    | 31,60,333/-                               | 1,03,283/-  |
| 31-7-1967  | 7,57,225/-      | 50,000/-    | 32,26,712/-                               | 1,96,629/-  |
| 31-7-1968  | 7,58,700/-      | 55,000/-    | 86,30,973/-                               | 2,49,040/-  |
| 31-7-1969  | 7,59,776/-      | 60,000/-    | 96,99,551/-                               | 2,57,281/-  |
| 31-7-1970  | 7,63,676/-      | 80,000/-    | 1,24,96,819/-                             | 3,30,440/-  |
| 31-7-1971  | 21,58,675/-     | 3,07,448/-  | 1,92,07,749/-                             | 11,54,618/- |
| 31-7-1972  | 22,25,600/-     | 5,44,406/-  | 2,42,53,145/-                             | 17,36,402/- |
| 31-7-1973  | 22,29,600/-     | 9,14,585/-  | 2,55,36,694/-                             | 25,29,206/- |
| 31-7-1974  | 22,30,375/-     | 15,74,519/- | *3,88,85,366/-                            | 28,22,091/- |

\*inclusive of Units & Subsidiaries.

sured it an important place in the country's economic and financial system. In furtherance of this goal we shall spare no efforts.

With your permission I now move on to the working of our other Units.

**Feroke Tile Works:** The arrangement by which the Tile Unit of the Feroke Tile Works has been leased out continues to function smoothly. The Unit at Rajahmundry is being transferred to Sudarsan Clay Products Limited, a wholly-owned subsidiary of your Company. Improved performance by the Rajahmundry Unit has started yielding profits. The Pipe factory at Feroke, the lease arrangements of which, were terminated earlier consequent to labour unrest faced by the then lessee, is now almost ready for operation. The Share-holders will appreciate that the reduction in sales and profits were due to the continued closure of this Unit during the year. Efforts are under way to lease out this Unit.

**Standard Furniture:** The Unit was plagued by raw-materials scarcity. Soft wood and urea formaldehyde resin—all became scarce; the latter because of the abnormal rise in the cost of petroleum products. Despite these difficulties working results have been satisfactory. It may please be observed that the sales have registered notable upward trend with the result the profits have also increased considerably. Your Directors have already taken steps to increase the production capacity of the Standard Furniture at Chalakudy by putting up a modern Jet Drier. The Government of Kerala has already been approached to sanction increased quantity of timber in order to put the Plant to full utilisation and to provide increased employment opportunities. Your Directors trust that the Government would view the matter sympathetically and sanction the required additional allotment of timber at the earliest opportunity.

**Mylampara Estate:** Even-

though production, sales and profits have improved, it has become evident that the estate needs further infusion of capital to make it viable. Even so, the progress that can be achieved will only be marginal for the foreseeable future. Moreover, the Unit is chronically beset by labour problems. The Directors are therefore not in favour of further investments and recommend to the Share-holders disposal of this Unit. A Special Resolution has been proposed for this purpose.

#### Subsidiary Companies:

**Sudarsan International Ltd.:** The Share-holders may perhaps recall that the Hotel project at Madras was envisaged with the idea of putting up a luxury Hotel with over 200 double rooms, three restaurants, Coffee shop, Bar, Banqueting Hall and three Conference Rooms with an imposing lobby. According to current costing for luxury Hotels of Five-Star standards the rate per lettable room is estimated to be in the region of Rs. 2.5 lakhs and as such the entire project, for completion, is budgeted to cost the Company over Rupees Five Crores. The basic services such as transformers, lobbies, air-conditioning and electrical equipments, etc., were initially planned to cater to a hotel of this type. However, your Directors thought it advisable to have the project in three phases. We have been successful in the commissioning of Phase I without upsetting the schedule much. Phase II is also progressing satisfactorily. Phase III may take about three years to complete in the normal course. Although the period covered is of short duration and the scope of operations restricted to 35 rooms, one Restaurant and the Permit Room, the results obtained have been very encouraging and augurs well for the future.

The first Phase of the Hotel project was commissioned on February 9, 1974. The Hotel has already earned a name for its comfortability, efficiency and cuisine. On com-

pleting its second and third Phases, it is certain to find a place among the top Hoteliering establishments of the Country.

**Sudarsan Clay Products Limited:** The Share-holders will observe that the Director's Report on the Subsidiary covers a period just under a year as at 31st March, 1974. After careful study of the working of the various Departments of its undertaking at Standard Pottery Works, Alwaye, detailed negotiations were held with the Workers' Union. Effective from January, 1974, the entire working of the factory has been re-organized and efficient manning scales have been introduced with the co-operation of the Workers Unions. Plans for utilisation of alternative fuel in the place of furnace oil and fire-wood for firing the Kilns and Boilers are also under active consideration. Increase in costs, scarcity of raw materials, frequent power failures, acute fuel scarcity and enormous rise in wages had to be met. However, considerable attention has been given towards streamlining the operation of this Subsidiary. Vigorous efforts are being made to increase production and sales. New agreements have been made with labour. The Share-holders may rest assured that during the year ahead, this Subsidiary will register appreciable progress all round.

**Sudarsan Chits (India) Limited:** I have already dealt with the prospects of Chit business of your Company. I may add that the implementation of very idea of segregating chit business from the holding company, has had the desired results. This has helped to stream-line the administrative set-up of the Organisation and also to reduce the operational expenses to a certain extent. Needless to say that it is most essential for the system to function under financial discipline and model regulations, for organised conduct and healthy growth. Your Company fully subscribes to these views and had therefore been advocating a policy of regulated growth.

**General:** Your Directors will be doing their utmost to keep the Company firmly on the path of steady and uninterrupted progress. For all its achievements in the past year as in the years before, a great part of the credit should go to the Company's Employees, Agents, Staff and Officers. To their loyalty and devotion I extend my grateful appreciation.

Thank you,

MAJ. GEN. D.C. MISRA,  
M.C. (RETD.) Chairman.

Calicut,

31st January, 1975.

(This does not purport to be the proceedings of the Meeting.)

## RECORDS AND STATISTICS

A Quarterly Bulletin of "Eastern Economist" his publication surveys important developments in each quarter in the various fields of the national economy as well as in the world economy, organizes its material in a convenient form and illustrates it with diagrams, graphs and charts. Its features are a business roundup, an analysis of markets and an investment supplement.

The Bulletin averages 64 pages and is priced at Rs 5 per copy. The annual subscription is Rs 20.

Inquiries regarding subscription and advertisement may be addressed to :

The Manager,  
The Eastern Economist Ltd.,  
Post Box No. 34, New Delhi-1





## Indian Oxygen Limited

**The following is the Statement of Mr K Hartley, Chairman, Indian Oxygen Limited, which has been circulated to the shareholders along with the Company's Annual Report for the year ended 30 September 1974.**

It gives me great pleasure to present this statement for the first time since I succeeded Mr A K Sen on 1 April 1974 to the office of Chairman of the Company, while continuing to be its Managing Director. I have been with the Company for many years and it is a very great privilege to be its first executive Chairman. I am keenly conscious of the honour shown to me and I shall spare no efforts to emulate the high standards set by my distinguished predecessors in this office. I take this opportunity of recording my high appreciation of the valuable services rendered by Mr A K Sen as Chairman of the Company from 1 December 1971 to 31 March 1974. The year under review was probably the most difficult year for the country since its Independence. The adverse effects of the shortfall in food production was intensified by inadequacies of the distribution system made worse by hoarding and profiteering. The widespread distress in many parts of the country affected by floods and drought has been unparalleled in its recent history. There was no slackening of the inflationary pressures, even though controlling inflation was recognised to be the single most important task facing the country. The wholesale price index at the end of the year was about 30 per cent higher than it was at the end of last year. The shortfall in production—both in the agricultural and the industrial sectors—left unsatisfied demands which offered scope for the play of vast sums of unaccounted money in the economy. The full impact of the package of anti-inflationary measures introduced by the Government since

July 1974 is yet to be fully assessed although the trends during the last few weeks suggest that there is at long last some slackening in the inflationary pressures.

Industrial production during the year was extremely disappointing despite the improved performance of some of the public sector undertakings as also the Government's recent emphasis on full utilisation of installed capacities. Severe shortages of power and certain critical raw materials, the impact of the world oil crisis, transport bottlenecks, credit constraints and industrial unrest were the main contributory factors. With agricultural production also registering a downward trend, the economy as a whole showed all the features of a severe crisis. In this otherwise gloomy outlook, the only silver lining was the increase in the country's exports.

On the political front, developments in Gujarat and Bihar posed a threat to the stability that had emerged after the last elections. Intra-party rivalries within the ruling party, particularly at the State level, also weakened the administration adding to the difficulties faced by industry and commerce. Fortunately, at the Central level there has been greater cohesion and a sense of direction.

The performance of the Company during the year under review has to be considered against this background.

### SALES

The Company's turnover for the year at Rs 32.57 crores exceeded the previous year's turnover by 26.9%. Volumetrically, sales of gas welding

and electric welding equipment and consumables registered some advance, but sales of industrial gases and a few other products were generally lower than during the previous year, mainly due to shortages of certain vital inputs and a number of other constraints.

The acute shortage of power in many parts of the country was the most important single factor inhibiting production at the Company's industrial gases, electrode and equipment factories. A shortage of steel affected the production of electrodes during the earlier part of the year and that of calcium carbide intermittently affected the production of dissolved acetylene, except during the last quarter. Manufacturing activities of many of the Company's customers suffered set-backs due to the shortages of power and industrial raw materials thereby lowering their consumption of the Company's products. Political unrest and agitation in some parts of the country also affected industrial activity. The sales turnover from the plant manufacturing activity more than doubled during the year: it would have been still higher if we had been able to obtain more high pressure air compressors, which currently have to be imported and which are an integral part of air separation plants. These compressors were to be manufactured in India by a public sector company and according to the original plans there should not have been any cause for anxiety about their availability. Unfortunately, it is difficult to foresee even now when the indigenously manufactured high pressure air compressors will be available: it is hoped that the company concerned will take urgent steps to implement the project so that other undertakings are not prevented, for want of air compressors, from utilising fully their installed manufacturing capacities.

Export sales recorded a more than three-fold increase over the previous year. This has enabled us to obtain recognition from the Government as an Export House for engineering goods and chemical and allied products. The Company's own products remained the major



source of export revenue, although there was some improvement in the export of other products as well.

#### **PROFIT, TAXATION AND DIVIDEND**

The profit for the year, after providing depreciation of Rs 89,42,000 (previous year Rs 87,93,000) amounted to Rs 2,96,71,300 as against Rs 2,75,08,241 last year. A sharp increase in operating costs due to the severe inflationary pressures in the economy and rise in interest charges affected the Company's profits during the year. The profit increase, therefore, was not in line with the sales advance.

Tax provision for the year amounted to Rs 1,67,00,000 (previous year Rs 1,83,00,000) leaving a net profit of Rs 1,29,71,300 as against Rs 92,08,241 last year. After transferring Rs 13,00,000 (previous year Rs 8,00,000) to Development Rebate Reserve and bringing back from this account Rs 5,00,000 (previous year Rs 10,00,000) now released, the amount available for appropriation was Rs 1,21,71,300 which has been transferred to General Reserve (previous year Rs 94,08,241).

Your directors have decided to recommend payment of dividend out of General Reserve at the rate of 6%, subject to deduction of tax. This dividend is within the limit of "distributable profit" of the Company for the year ended 30 September 1974 as defined in the Companies (Temporary Restrictions on Dividends) Act, 1974. For determining the "distributable profit" the actual tax estimated to be payable under the Income Tax Act 1961 has been taken into consideration.

#### **FINANCE**

A further amount of Rs 4,68,234 was repaid to the British Oxygen Company Limited (BOC) against the loan granted by them leaving a balance of Rs 23,41,169 at the end of the year.

The overdraft facilities which were enhanced to Rs 300 lakhs on a consortium basis from Punjab National Bank, The Chartered Bank and National & Grindlays Bank Ltd in 1972 were almost fully utilised during the year to meet the additional requirements of working

capital due to the steep rise in prices of materials and other costs and increased activities particularly in plant manufacture.

#### **DEVELOPMENT AND EXPANSION**

In his Statement last year, Mr A K Sen referred to the Company's collaboration agreement with Cryoplants Limited, London, for acquiring technical know-how for the manufacture of low pressure tonnage air separation plants and nitrogen generators. The Company's application for approval of this agreement is still under the consideration of the Government; I sincerely hope that the Government will not delay further and will give a decision shortly.

The Government approved during the year the Company's technical collaboration agreement with Saccab SPA, Milan, for the manufacture in India of oxygen tents. The approval is subject to an export obligation for a period of five years—a condition that we have accepted. These products should be available to the market during the last quarter of 1975.

It has been our endeavour for some time to manufacture within the limitations of our existing industrial licence capacities new products of sophisticated technology. During the year under review we were able to achieve some measure of success and we introduced the Cheetah cutting machine, MIG 400 semi-automatic welding set and Cobalarc electrodes. The Cheetah is a low cost portable straight line cutting machine with a circle cutting attachment and incorporates for the first time in India a solid state control device: it has been well received in fabrication workshops.

The MIG 400 is a semi-automatic metal inert gas welding set which can also be used for stainless steel and aluminium welding: this set should prove to be of immense value in large fabrication works. Cobalarc electrodes, manufactured under a technical collaboration agreement with Murex Pty Ltd of Australia, are used for hardfacing of machine parts and for re-conditioning of machines, thereby prolonging their effective life. This will defer replacements of machines and

machine parts: the use of these electrodes will thus contribute also towards saving of the country's foreign exchange resources so far as imported machines and machine parts are concerned.

In his Statement last year, Mr A K Sen mentioned that certain projects for diversification and development of the Company's activities were under detailed study. This study was completed in close collaboration with specialists from BOC and in June 1974 we submitted an industrial licence application which is now under the Government's consideration. The project, to be located in a notified backward area, is quite unconnected with the current range of the Company's manufacture, involves the use of sophisticated technology, is heavily export-oriented and offers substantial additional employment opportunities. Its implementation will bring about a considerable dilution in the foreign equity holding in the Company. The project fulfils all the major policy requirements of the Government for growth of foreign-controlled companies and we hope that it will be approved by the Government at an early date. I should like to add that the capital outlay for the project will be large; its success will depend on the satisfactory response to the substantial fresh issue of equity shares and timely availability of loan finance. The details of these arrangements cannot obviously be determined until after the Government approval of the project is received: these are under our consideration and I would like to assure all shareholders that their interests will be kept fully in view in these matters.

The Company's recognition as an Export House, referred to earlier, opens up new opportunities and we are indeed fortunate that we can rely on the support of the world-wide BOC Group in our export activities.

#### **MANAGEMENT AND PERSONNEL**

Industrial relations in the Company remained generally satisfactory throughout the year. In March 1974, a settlement was signed with the

recognised Federation of the employees' unions : in addition to revising pay scales for the non-management staff, the settlement spelt out—for the first time—the respective rights and responsibilities of the management and the trade unions and laid down the principles governing their relationship. A settlement was also signed with the Federation in the same month regarding payment of bonus for the year 1972/73. Similar settlements were subsequently signed at some of the units with the recognised unions which were not represented by the Federation. Following these settlements there were signs at several units of encouraging co-operation of employees and their representatives in implementing measures calculated to improve the Company's operations. However, much ground remains to be covered and I look forward to greater participation by the employees and their representatives in our efforts to increase production, improve productivity and bring about a harmonious working relationship which will enable the Company to exploit fully its varied resources in the interest of the country's industrial growth.

The management development plan has recently been reviewed in the light of our experience since its introduction in 1967 to make it more effective for the Company's requirements. Before giving effect to the revised plan it was widely discussed with the management

staff at seminars held at several locations: the enthusiasm generated at these seminars augurs well for the success of the revised plan which seeks to develop managers at all levels of the Company to cope with the ever-increasing responsibilities being placed on them.

I would like to take this opportunity to commend and thank all those employees, management and non-management, whose sincere efforts enabled the Company to carry on satisfactorily its activities during the year, often in difficult conditions.

Mr A K Mukerji, wholetime director, retired on 1 April 1974 after a long period of service. I would like to record our appreciation of his contributions to the Company which were valuable in many ways.

#### PROSPECTS

In his Statement last year, Mr A K Sen referred to the impact of the Foreign Exchange Regulation Act, 1973 on the Company and others similarly situated, in which non-resident interest is more than forty per cent. Our applications for the various approvals necessary under the Act have been submitted to The Reserve Bank of India. The Company fulfils the criteria laid down by the Government of India in the guidelines for administering Section 29 of the Act and it is hoped that the Company's activities will not be subjected to fresh constraints.

As already stated, certain shortages hindered the Company's production and caused a slackening of the

customer demand during the year under review. If the Company's operations are not similarly impeded and there is no set-back in the customer demand, the prospects in the immediate future are satisfactory. The long term outlook depends upon the Government's response to our diversification project : if the Company is allowed to implement it, our contribution to the country's industrial growth will be commensurate with our resources, strengthened by our links with a large international group possessing advanced technologies in various fields.

My assessment of the Company's future prospects is based on the assumption that the country will overcome its current economic difficulties and that the curve of industrial growth which has tended to flatten out in recent years will again begin to move upward. I also hope that in the political sphere timely corrective measures will be taken to ensure that the factors that are impairing administrative efficiency are removed and to restore throughout the country a climate conducive to rapid economic development.

**K HARTLEY**  
CHAIRMAN

28 November 1974

*Note : This does not purport to be a record of the proceedings of the Annual General Meeting.*

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# RECORDS AND STATISTICS

## Oil Facility

THE INTERIM Committee of the Board of Governors of the Fund held its second meeting on January 15-16 in Washington and decided to continue the Fund's oil facility for 1975 and enlarge it to more than SDR 5 billion to help members alleviate their present very large balance of payments disequilibria. The Committee agreed on a major increase in the Fund's resources through an increase in members' quotas, and provided guidance for the Executive Directors to assist them in drafting amendments of the Articles of Agreement that are being considered as part of the reform of the international monetary system. Among the amendments, progress was made in establishing new understandings about official transactions in gold, including the abolition of the official price and ending the requirement that members pay a portion of their quotas in gold.

At the conclusion of the meeting, a communique was issued and Chairman John N. Turner, Minister of Finance of Canada, and Managing Director H. Johannes Witteveen conducted a briefing for the press.

The Executive Directors of the Fund can now carry out the extension and enlargement of the oil facility, as well as the establishment of a special account approved by the Interim Committee to be financed from contributions of members to assist the most seriously affected nations with the interest payments on their oil

facility drawings. The quota increase and the amendments of the Articles of Agreement, however, need further work by the Executive Board. Recommendations on these two subjects might be examined by the Interim Committee at its third meeting, to be held in Paris in early June, but the proposals will require the approval of the Board of Governors, either by mail ballot or at the next Annual Meeting, in Washington September 1-5, 1975. Finally, legislative ratification will be required in many member countries before either quota increases or amendments can take effect.

### OECD "Safety Net"

In a separate action that was related to the decisions of the Interim Committee, ministers and central bank governors of the Group of 10 industrial countries that participate in the Fund's General Arrangements to Borrow (GAB) agreed that a "solidarity fund, a new financial support arrangement" open to the 24 members of the Organization for Economic Cooperation and Development (OECD) should be established as soon as possible for a two-year period. This "safety net, to be used as a last resort" is to be established on the basis of quotas totalling approximately \$25 billion. The negotiators recommended the establishment of an ad hoc OECD Working Group to prepare a draft agreement with a view to submitting it to the OECD Council for approval by the end of February 1975, in time for the proposed conference in March of oil consuming and oil exporting countries.

The ministers and governors

of the Group of 10 reached their agreement in sessions on January 14 and 16 conducted by their chairman, Masayoshi Ohira, Finance Minister of Japan; a communique issued following the second session was discussed at a press briefing by Mr. Ohira.

In the press briefing on the Interim Committee's work, Mr. Turner said the decisions would "reinforce business confidence around the world, and reinforce the confidence of governments." The most encouraging thing to him was the "evidence of cooperation among the nations of the world to deal on a joint basis with a difficult global economic situation." Together, the decisions of the new Interim Committee, whose 20 members are chosen from the entire membership of 126 countries in the Fund, and of the Group of 10, represent "significant progress in assuring world economic stability," Mr. Turner said.

### Development Committee

The special concerns of developing countries were considered by the Development Committee, the joint ministerial committee of the Governors of the World Bank and the Fund, which held its second meeting on January 17 under the chairmanship of Henri Konan Bedie, Minister of Finance and Economy of the Ivory Coast. Its conclusions were described in a communique and discussed in a press briefing by Mr. Konan Bedie and the Executive Secretary, Henry J. Costanzo. The Development Committee welcomed the Interim Committee's action favouring the creation of a special account in the Fund to help the most seriously affected nations with interest payments on oil facility drawings, and asked the Executive Directors of the World Bank and the Fund to consider the desirability of creating a special trust fund to provide additional highly concessional resources to help these countries deal with the problems foreseen in the period immediately ahead.

Earlier in the week, the ministers of the Group of 24 developing countries met for

two days, and issued a communique at the conclusion of their session on January 16, which was discussed in a press briefing by the chairman, N.M. Perera, Minister of Finance of Sri Lanka.

### Interim Committee Actions

The issues before the Interim Committee were a complex mixture of short-term and longer-term questions, requiring inter-related solutions. In its inaugural meeting October 3, 1974, the Interim Committee had asked the Executive Directors, as a matter of urgency, to consider the adequacy of existing private and official arrangements for recycling payments or oil, and also singled out for discussion, on a priority basis, the adjustment process, quotas in the Fund, and amendments of the Fund's Articles of Agreement. This program of work established the Executive Board's priorities for the period since the Annual Meeting, and set the framework for the Interim Committee's discussions. Among its conclusions on January 15-16, the Interim Committee decided that:

- the Fund's oil facility will be continued for 1975 and enlarged to SDR 5 billion, plus any amount unused from the 1974 oil facility of SDR 3 billion when drawing under it have been completed. Members had used about SDR 1.8 billion under the 1974 oil facility through January 15, 1975 (Press Release No. 75/1) but the Fund will receive requests for purchases under it until February 28, 1975. Operation of the oil facility will be kept under constant review for any further action that might be necessary.

- a special account should be established, as suggested by the Managing Director, with appropriate contributions from oil exporting and industrial countries, and possibly by others capable of making them. The special account will be used to reduce the burden of interest payments on oil facility drawings for the most seriously affected countries.

- the size of the Fund should be increased by 32.5 per cent

through an increase in members' quotas to SDR 39 billion, and the quotas of the major oil exporting countries as a group should be doubled, while the share of other developing countries, taken together, should not be reduced. These recommendations would be carried out in the Sixth General Review of Quotas, which is now under way in the Executive Board. The Executive Board began the review in April in accordance with the requirement of the Articles of Agreement that one be conducted no less frequently than every five years. The Interim Committee called for the next review within three years.

●the Executive Board should continue with its work on amendments of the Articles of Agreement and submit its drafts to the Interim Committee as soon as possible. Among the subjects listed to be covered were the transformation of the advisory Interim Committee into a permanent decision-making Council, improvements in the Fund's general Account, and in the characteristics of the SDR, future arrangements for gold, and other amendments designed to achieve progress toward the reformed monetary system envisioned in the Outline of Reform prepared by the Committee of 20.

### New Mechanisms to Assure World Economic Stability

(Press Communiqué of the Interim Committee of the Board of Governors on the International Monetary System)

1. The Interim Committee of the International Monetary Fund held its second meeting in Washington, D.C. on January 15 and 16, 1975. Mr. John N. Turner, Minister of Finance of Canada, was in the chair. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions of the matters referred to in paragraphs 2, 3, and 4 below: Mr. Henri Konan Bedie, Chairman, Bank/Fund

Development Committee; Mr. Gamani Corea, Secretary-General, UNCTAD (United Nations Conference on Trade and Development); Mr. Wilhelm Haferkamp, Vice-President, EC (European Community) Commission; Mr. Mahjoub A. Hassanain, Chief, Economics Department, OPEC (Organization of Petroleum Exporting Countries); Mr. Rene Larre, General Manager, BIS (Bank for International Settlements); Mr. Emile van Lennep, Secretary-General, OECD (Organization for Economic Cooperation and Development); Mr. Olivier Long, Director General, GATT (General Agreement on Tariffs and Trade); Mr. Robert S. McNamara, President, World Bank.

2. The Committee discussed the world economic outlook and against this background the international adjustment process. Great concern was expressed about the depth and duration of the present recessionary conditions. It was urged that anti-recessionary policies should be pursued while continuing to combat inflation, particularly by countries in a relatively strong balance of payments position. It was observed that very large disequilibria persist not only between major oil exporting countries as a group and all other countries, but also among countries in the latter group, particularly between industrial and primary producing countries. Anxiety was also voiced that adequate financing might not become available to cover the very large aggregate current account deficits, of the order of US\$30 billion, in prospect for the developing countries other than major oil exporters in 1975.

3. The Committee agreed that the oil facility should be continued for 1975 on an enlarged basis. They urged the Managing Director to undertake as soon as possible discussions with major oil exporting members of the Fund, and with other members in strong reserve and payments positions, on loans by them for the purpose of financing the facility.

The Committee agreed on a figure of SDR 5 billion as the total of loans to be sought for this purpose. It was also agreed that any unused portion of the loans negotiated in 1974 should be available in 1975. The Committee agreed that in view of the uncertainties inherent in present world economic conditions, it was necessary to keep the operation of the oil facility under constant review so as to be able to take whatever further action might be necessary in the best interests of the international community. It was also understood that during the coming months it would be useful to review the policies, practices, and resources of the Fund since it would be appropriate to make increased use of the Fund's ordinary holdings of currency to meet the needs of members that were encountering difficulties.

4. The Committee emphasized the need for decisive action to help the most seriously affected developing countries. In connection with the oil facility, the Committee fully endorsed the recommendation of the Managing Director that a Special Account should be established with appropriate contributions by oil exporting and industrial countries, and possibly by other members capable of contributing, and that

the Fund should administer this account in order to reduce for the most seriously affected members the burden of interest payable by them under the oil facility.

5. The Committee considered questions relating to the sixth general review of the quotas of members, which is now under way, and agreed, subject to satisfactory amendment of the Articles, that the total of present quotas should be increased by 32.5 per cent and rounded up to SDR 39 billion. It was understood that the period for the next general review of quotas would be reduced from five years to three years. The Committee also agreed that the quotas of the major oil exporters should be substantially increased by doubling their share as a group in the enlarged Fund, and that the collective share of all other developing countries should not be allowed to fall below its present level. There was a consensus that because an important purpose of increases in quotas was strengthening the Fund's liquidity, arrangements should be made under which all the Fund's holdings of currency would be usable in accordance with its policies. The Committee invited the Executive Directors to examine quotas on the basis of the foregoing understandings,

### Oil Facility Purchases

Four member countries of the Fund have made purchases under the Fund's oil facility totalling the equivalent of SDR 80.829 million in the period 1 to 15 January 1975. The countries and the amounts, expressed in SDRs, of their purchases are:

|                   |                |
|-------------------|----------------|
| Greece            | SDR 56,930,000 |
| Malagasy Republic | 7,780,000      |
| Senegal           | 15,525,000     |
| Sierra Leone      | 594,000        |

Including the latest transactions, purchases under the oil facility, since it was established on June 13, 1974, have been made by 34 member countries in amounts totalling the equivalent of SDR 1,796.647 million.

Three of the countries listed above have previously made purchases under the Fund's oil facility. Including the latest transactions, the purchases of Greece total SDR 93.15 million, of Malagasy Republic SDR 11.23 million, and of Sierra Leone SDR 4.914 million.

and to make specific recommendations as promptly as possible on increases in the quotas of individual member countries.

6.1. The Committee considered the question of amendment of the Articles of Agreement of the Fund. It was agreed that the Executive Directors should be asked to continue their work on this subject and, as soon as possible, submit for consideration by the Committee draft amendments on the following subjects:

(a) The transformation of the Interim Committee into a permanent Council at an appropriate time, in which each member would be able to cast the votes of the countries in his constituency separately. The Council would have decision-making authority under powers delegated to it by the Board of Governors.

(b) Improvements in the General Account, which would include (i) elimination of the obligation of member countries to use gold to make such payments to the Fund as quota subscriptions and repurchases and the determination of the media of payment, which the Executive Directors would study, and (ii) arrangements to ensure that the Fund's holdings of all currencies would be usable in its operations under satisfactory safeguards for all members.

(c) Improvements in the characteristics of the SDR designed to promote the objective of making it the principal reserve asset of the international monetary system.

(d) Provision for stable but adjustable par values and the floating of currencies in particular situations, subject to appropriate rules and surveillance of the Fund, in accordance with the Outline of Reform.

II. The Committee also discussed a possible amendment that would establish a link between allocations of SDRs and development finance, but

there continues to be a diversity of views on this matter. It was agreed to keep the matter under active study, but at the same time to consider other ways for increasing the transfer of real resources to developing countries.

7. The Committee also agreed that the Executive Directors should be asked to consider possible improvements in the Fund's facilities on the compensatory financing of export fluctuations and the stabilization of prices of primary products and to study the possibility of an amendment of the Articles of Agreement that would permit the Fund to provide assistance directly to international buffer stocks of primary products.

8. There was an intensive discussion of future arrangements for gold. The Committee reaffirmed that steps should be taken as soon as possible to give the special drawing right the central place in the international monetary system. It was generally agreed that the official price for gold should be abolished and obligatory payments of gold by member countries to the Fund should be eliminated. Much progress was made in moving toward a complete set of agreed amendments on gold, including the abolition of the official price and freedom for national monetary authorities to enter into gold transactions under certain specific arrangements, outside the Articles of the Fund, entered into between national monetary authorities in order to ensure that the role of gold in the international monetary system would be gradually reduced. It is expected that after further study by the Executive Directors, in which the interests of all member countries would be taken into account, full agreement can be reached in the near future so that it would be possible to combine these amendments with the package of amendments as described in paragraphs 6 and 7 above.

9. The Committee agreed to

meet again in the early part of June 1975 in Paris, France.

### **Bolster World Business Confidence**

Following are excerpts from an introductory statement by John N. Turner, Minister of Finance of Canada, at a press conference on January 16 at Fund headquarters conducted by him and Managing Director H. Johannes Witteveen.

I think that what happened today, both in the International Monetary Fund Interim Committee and in the Group of 10, represents significant progress in assuring world economic stability. Two new facilities, or financial mechanisms, were established to deal with the pressures caused by imbalance of payments in massive amounts provoked by the rise in oil prices over the last 18 months.

There is, of course, the safety net, or solidarity fund, ...a potential fund of \$25 billion, and which must be undertaken in its borrowing and contributing side among the industrial nations of the world. And now out of the International Monetary Fund the Interim Committee has authorized an extension into 1975 of a new oil facility in the amount of 5 billion special drawing rights, or approximately 6.4 billion dollars at today's rate.

The Communique sets out the details.

I think that this action by the body representing 126 nations will reinforce business confidence around the world, and reinforce the confidence of governments. The most encouraging thing, as far as I am concerned, is that it was evidence of cooperation among the nations of the world to deal on a joint basis with a difficult global economic situation. The risks were there, and I think the risks have been minimized considerably as a result of today's action. And we have also minimized the temptation of unilateral national action on the part of countries that might otherwise have wanted to protect their

own balance of payments situation, or to compensate for their own deficit position, by artificial devaluations or trade restrictions, or monetary restrictions. So I am very encouraged by what happened today...

The purpose of this Interim Committee, which eventually I hope will become the permanent Council of the International Monetary Fund, is to add political direction on behalf of the nations of the world to this international institution.

### **Need For More Emphasis on Antirecession Policies**

Following are excerpts from introductory remarks of Mr. Witteveen at the press conference conducted by him and Chairman Turner following the January 16 session of the Interim Committee:

Let me start by saying that I also am very much encouraged by the positive results of this important meeting. The world faces a difficult situation, and we need cooperation among our member countries and effective action to overcome these difficulties. And I am convinced that the decisions that have been taken today under your effective leadership, Mr. Chairman, will contribute very much to overcome these difficulties.

If I may follow the different points in the Communique, giving some brief explanation:

We have a discussion of the world economic situation on the basis of a very detailed and penetrating report by the staff of the Fund on the World Economic Outlook that was discussed previously in the Executive Board. On the basis of that detailed report, analyzing the whole situation and the discussion in the Board, I prepared a short paper for the Ministers; and that paper was the basis for some conclusions that you find here in the Communique.

There was general support for the conclusion in this report that in the present situation there should be more emphasis on anti-recessionary policies in

general; at the same time, the analysis in the Fund report makes it very clear that there continue to be very large imbalances in international payments not only between the group of the oil exporting countries and oil consuming countries, but ... between different industrial countries and ... developing countries, and (also) the more developed primary-producing countries. This, of course, must have its influence in the way in which policies to combat recession and inflation are pursued.

It is clear that countries in a relatively strong balance of payments position can, and, in the present situation, should go further in anti-recession policies; while countries in a weaker situation should put more emphasis on measures that could shift resources from internal use to exports.

That is the general approach

to the situation and the current problems of economic policy.

Apart from that, the Committee was struck by the increasing current account deficits of the developing countries as a group, which are, of course, partly a consequence of the recessionary tendencies in industrial countries. We expect the current account deficit for the developing countries as a whole — apart, of course, from the oil producing countries — to be about \$30 billion, which is, of course, an enormous amount. Last year, it was something like \$22-\$23 billion, which was already a very serious problem. So, there was concern in the Committee on the possibilities of financing this; and concern for the developing countries has come up in connection with other different items on our agenda.

In the first place, one of the most important issues then

was of course, the role of the Fund in the recycling of surpluses of oil-producing countries to oil consuming countries. Here, a decision was taken to support the proposals that have been worked out in the Executive Board to continue the oil facility in this year with some adjustments in the formula, which determines access of individual countries to the facility; adjustments which, in general, reduce somewhat the weight in the formula of additional costs of oil imports, and which increase the weight of quota of different countries. So that is a first move away from the concept of the oil deficit to the normal criterion for Fund transactions...

We decided that we will arrange borrowings from oil producing countries, and from other surplus countries who are in a position to help in financing this facility. We agreed to arrange for borrow-

ings to the amount of SDR 5 billion. We also agreed that the amount that will probably be left over from the borrowings of the year can also be used to finance the continuation of the oil facility; that is, the amount left over from last year can be used also in this year.

As you know, we made borrowing arrangements last year for a little more than SDR 3 billion, about \$3.6 billion. Of that amount we have now used approximately SDR 2 billion. So that somewhat more than SDR 1 billion is still left. But I have to add that we still expect a number of requests by different member countries to draw on the facility for 1974 in connection with their oil deficits of last year.

So we will not have SDR 1 billion left over. It is very difficult to say exactly how much will be left. It may go

#### Communique of the Ministerial Meetings of the Group 10

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow met in Washington on the 14th and 16th of January, 1975, under the Chairmanship of Mr. Masayoshi Ohira, Minister of Finance of Japan.

The Managing Director of the International Monetary Fund, Mr. H.J. Witteveen, took part in the meetings, which were also attended by the President of the Swiss National Bank, Mr. F. Leutwiler, the Secretary-General of the Organisation for Economic Cooperation and Development (OECD), Mr. E. van Lennep, the General Manager of the Bank for International Settlements, Mr. R. Larre, and the Vice-President of the Commission of European Economic Community, Mr. W. Haferkamp.

2. After hearing a report from the Chairman of their Deputies, Mr. Rinaldo Ossola, the Ministers and Governors agreed that a solidarity fund, a new financial support arrangement, open to all members of the OECD, should be established at the earliest possible date, for a period of two years. Each participant will have a quota which will serve to determine its obligations and borrowing

rights and its relative weight for voting purposes. The distribution of quotas will be based mainly on GNP and foreign trade. The total of all participants' quotas will be approximately \$ 25 billion.

3. The aim of this arrangement is to support the determination of participating countries to pursue appropriate domestic and international economic policies, including cooperative policies to encourage the increased production and conservation of energy. It was agreed that this arrangement will be a safety net, to be used as a last resort. Participants requesting loans under the new arrangement will be required to show that they are encountering serious balance of payments difficulties and are making the fullest appropriate use of their own reserves and of resources available to them through other channels. All loans made through this arrangement will be subject to appropriate economic policy conditions. It was also agreed that all participants will jointly share the default risks on loans under the arrangement in proportion to, and up to the limits of, their quotas.

4. In response to a request by a participant for a loan, the other participants will take a decision, by a two-thirds majority, on the granting of the

loan and its terms and conditions, in the case of loans up to the quota, and as to whether, for balance of payments reasons, any country should not be required to make a direct contribution in the case of any loan. The granting of a loan in excess of the quota and up to 200 per cent of the quota will require a very strong majority and beyond that will require a unanimous decision. If one or more participants are not required to contribute to the financing of a loan, the requirements for approval of the loan must also be met with respect to the contributing participants.

5. Further work is needed to determine financing methods. These might include direct contributions and/or joint borrowing in capital markets. Until the full establishment of the new arrangements, there might also be temporary financing through credit arrangements between central banks.

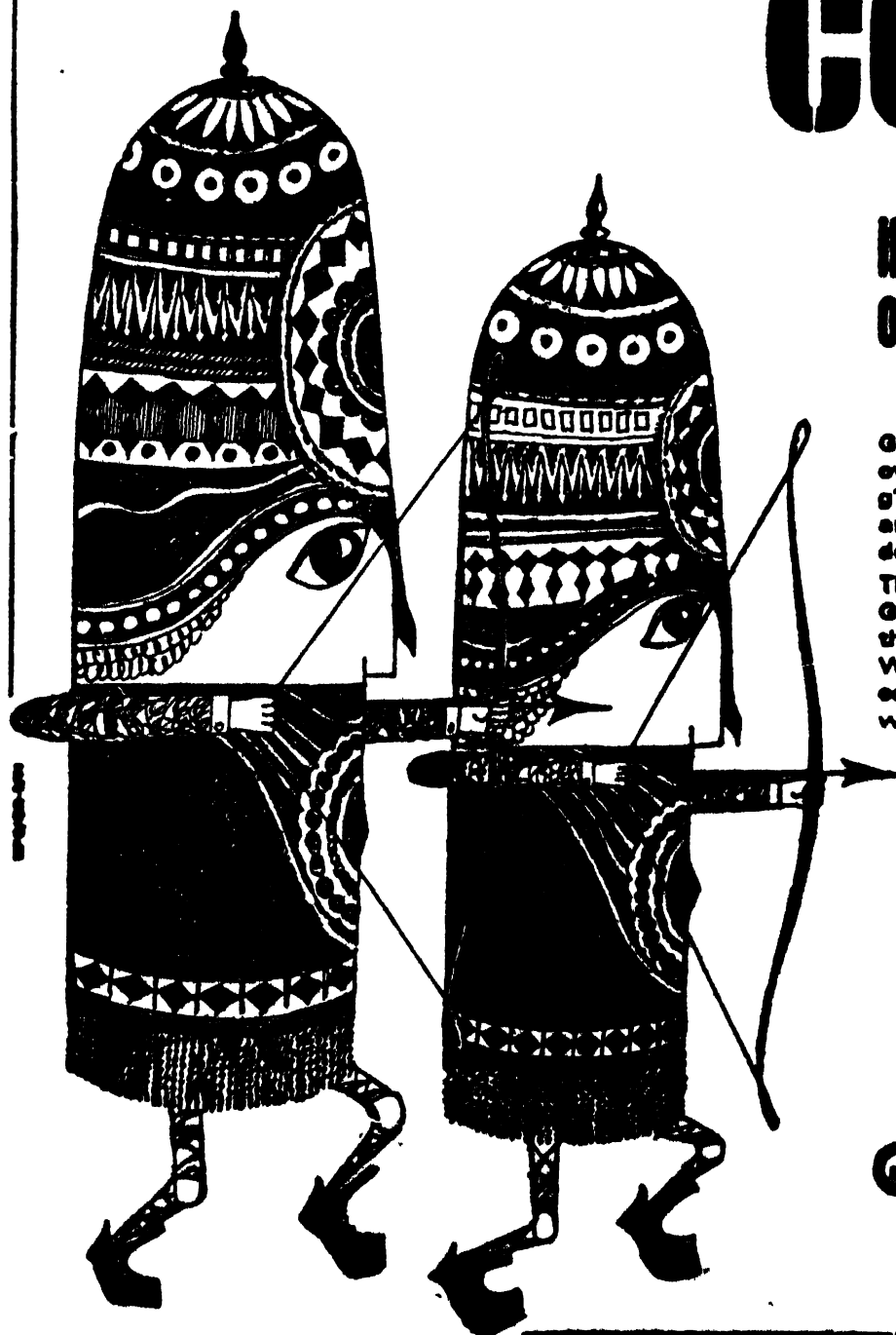
6. Ministers and Governors agreed to recommend the immediate establishment of an ad hoc OECD Working Group, with representatives from all interested OECD countries, to prepare a draft agreement in line with the above principles. In their view this work should be concluded in time to permit approval by the OECD Council by the end of February, 1975.



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down to perhaps something like half a billion SDR, but it is still uncertain. In any case, what will be left over we can also use this year.

Of course, we do not know whether with this amount available we can finance the drawings under the oil facility under the adjusted formula over the whole of this year. There is uncertainty, of course, about a number of countries with a balance of payments need that will wish to use the facility and about the extent of this balance of payments need. But as you know, in the past year our experience has been that the actual drawings on the facility were smaller than we initially expected, and that, in fact, we will have a certain amount which will be left over.

So it is not at all impossible that this amount would be sufficient. But we will keep, as you see in the Communiqué, we will keep the operation of the facility under constant review — as we, in fact, have also done last year — following carefully the way that the drawings on the facility develop. Thus we can keep them within this amount, and supposing it is exhausted, then, we can see what further measures to take.

There are, of course, different possibilities: we could use some of our own resources; we could borrow more; we could change the formula. That is left for consideration during this review.

Finally you find, in this paragraph in the Communiqué, that we will also review in general the policies, practices, and resources of the Fund, because there is agreement that we should, in the present situation, do all that is possible to make the Fund useful, and to help our member countries in the difficulties they experience.

Now there is a new element in the oil facility for this year, one that I consider of great importance. You see that in the fourth paragraph of the Com-

munique. It is, that we have reached agreement to do something this year for the group of most seriously affected developing countries. There was already a feeling during the Annual Meeting, as you know, that we should do something to lighten the interest burden for these countries when they use the oil facility. We have now reached agreement that we will do this in this year by establishing a Special Account, through which our member countries will give contributions, and that we will use it in order to make life a little easier for this group of countries which experienced such very serious difficulties.

It has been agreed that both the oil exporting countries and the industrial countries should contribute to this Special Account in a fair way. There is also the possibility of other members contributing. I think there was a very positive attitude in this respect, in both groups of countries. Also, I think it is a good thing that we avoided any rigidity in this approach. So that I am very hopeful that we can succeed in bringing this about; and I think that will be very practical and effective help to this group of countries. Let me add that we expect that the amount this group of countries will draw under the oil facility will be something of the order of SDR 1½ billion. On that amount, we hope to reduce the interest burden substantially.

The Committee then moved to a second important subject: the increase in quota. You know that we have been working for quite some time on the review of quotas. And I must say that I am very encouraged that we reached agreement on some of the most important characteristics of this review. Although the positions were still rather far apart when our meeting started, we have now reached agreement on the total amount — the total size of the increase in quotas; and on some important aspects of the distribution, i.e., the doubling of the share of the major oil producers, and maintaining the share of the other deve-

loping countries. And, also, there was agreement on the need to ensure that the Fund's holdings of currency will be usable in accordance with our policies. That is something that we now agree should go with this increase in quota, and that makes this quota increase even more important. It means that, if this is brought about, some currencies which at present we cannot use, but which we already have, we will be able to use soon when this quota increase is agreed. Among these currencies are those of a number of oil producing countries — so that is especially useful. Of course, this still has to be worked out. In connection with the quota increase, I will make it clear that the Executive Board still has a difficult task to work this out; to come to a decision on increases for individual countries. This distribution is always a difficult aspect. But now it will be especially difficult, because, clearly, the share of the industrial countries as a group will be substantially reduced. And, of course, it is always more difficult to distribute a reduction than to distribute an increase. But we are, of course, hopeful that this will be brought about.

Finally, we had, I think, a very fruitful discussion of the subject of amendments to the Articles of Agreement. This is a very complicated, technical subject, but the Committee has now decided on a number of guidelines which will help the Executive Board very much in working out draft agreements, which we then hope will be considered in the next meeting of the Committee and on which an advice of the Committee of the Board on Governors can by then be formulated.

You will find in the Communiqué what subjects the Committee now wishes the Board to work out. There is the amendment of the Council the amendment on improvements in the General Account, where we have, in the first place, the essential subject of eliminating the obligation of mem-

ber countries to pay 25 per cent of their quota increase in gold at the official price, which, of course, is not possible at the moment. And we will then also bring into the Articles of Agreement as I have mentioned already, an arrangement so that all currencies will in future be usable under the Fund's policies. And, of course, besides that there are a number of other improvements in the General Account that we believe will make it possible for the Fund to function more efficiently.

Then these is agreement that improvement in the characteristics of special drawing rights have to be worked out. And there, we have to work out amendments, as you see here, to provide for stable but adjustable par values and for floating in particular situations — floating is not in our present Articles of Agreement and we have to revise the Articles to open up that possibility.

We, of course, discussed again the subject of the link. You will see here that we have now agreed that there are such differences on this subject that, although we will continue to study it, we do not expect that it will have its place in the group of amendments that we hope to bring to the Interim Committee at the next meeting and that we hope will be adopted. But we will also study other possibilities for the transfer of real resources.

Then in paragraph 7 there is quite an interesting new subject. The Board is asked to study the functioning of our compensatory financing facility and of our buffer stock facility. I think this could be a very useful study. Of course, the philosophy behind this is that we should not only take into account fluctuations in export prices with respect to the compensatory financing arrangements but also in some way consider import prices, or the general development of the price level; and this could be very important for a number of primary producing countries.

Finally, you see that there

was a discussion of the difficult but important subject of gold. There is already some agreement, as you see here, on abolishing the official price for gold and obligatory payments of gold to the Fund by member countries. There was much progress in discussion of a complete set of the amendments to the Articles that would be necessary to bring about this abolishing of the official price and, connected with that, to give freedom to central banks to enter into transactions with each other in gold, but with certain arrangements in order to ensure that the purpose we all agree on — that gold should gradually be removed from the system — shall in fact be realized. We have to study this further. It will certainly still be a difficult study, but we have received guidance and I think we can have very fruitful discussions in the Board in the next few months on this important subject.

### New Facilities Can Cushion Oil Price Shock

Following are excerpts from the press conference conducted by Mr. Turner and Mr. Witteveen:

**QUESTION:** With the existence of the safety net, will there be a tendency to put the needs of the developing countries ahead of perhaps the needs of some of the OECD countries in obtaining help under the \$6 billion?

**MR. TURNER:** I'll let the Managing Director speak to that, except that I'll say two things: First of all, the safety net is a safety net. It's a vehicle of last resort. Secondly, it's against the practice of the Fund to discriminate between member states in borrowing availability.

**MR. WITTEVEEN:** Well, I think these are indeed the main points, Mr. Chairman. This year, as last year, the facility will remain available for all our members which satisfy the formula and the balance of payments need,

both developing and industrial countries. It is also of importance in this context that, as I understand it, arrangements for the safety net make it clear that that's something for use in last resort after the countries have first used the other possibilities to finance their deficits, and that includes, of course, drawings on the Fund.

**MR. TURNER:** I just remind members of the media here that the two facilities that were put in place today, or authorized today — one is a solidarity fund, or a safety net, umbrella, insurance arrangement by the industrial countries of the world; the other is International Monetary Fund facility. There is no theology of jurisdiction here so far as the International Monetary Fund is concerned. These are supplemental to and in guarantee of whatever recycling is done and can be done by the private financial institutions of the world, the banking systems of the world; bilateral deals between countries; investment of oil exporting countries in (oil consumer nations; whatever facility the European Common Market may jointly arrange by way of its own borrowing; whatever facilities OPEC may, on its own initiative, arrange; whatever recycling is done by way of foreign aid through the World Bank and other agencies on a regional basis. So that you've got to look at this in total context, and what we were trying to do as Ministers was to ensure the co-ordinating surveillance of the Fund over the total picture, and to ensure that the mechanisms in play, together, were sufficient to cushion the world against the shock of the oil price phenomenon.

**QUESTION:** Could you give an idea of the actual rate of concessional interest? Will it be 5 per cent or 2-2½ per cent? Also, what will be the size of the special account?

**MR. WITTEVEEN:** Of course, we have to see how large the contributions can be, but our aim will be to reduce the rate of interest on the oil

facility by 5 per cent for this group of countries and then you can easily calculate what amount will be involved. Five per cent on SDR 1.3 billion, let us say, will be about SDR 65 million per year. And that will then have to become available over the period of the loan, which is on the average five years.

**QUESTION:** Did you say to 5 per cent or by 5 per cent?

**MR. WITTEVEEN:** No, by 5 per cent. That's our aim; we don't know whether we will completely realize that, but the aim is to reduce the rate of interest by 5 per cent, so if you borrow for, let us say, 7½, then we would reduce the rate of interest by contributions from this special ac-

count — reduce the effective burden to 2½ per cent.

**MR. TURNER:** So, you're not reducing by 5 per cent; you're reducing five percentage figures from 7½ down to 2½.

**QUESTION:** A related question, Mr. Witteveen. Do you have reasonable assurance of lending facilities from the oil producing countries to meet the SDR 5 billion 1975 facility, and have you had any indication of interest by countries to contribute to the interest subsidy, the special account?

**MR. WITTEVEEN:** Of course, that's an important question. We agreed at our last meeting during the

### Membership of the Interim Committee and Participants in the Second Meeting

|                                                     |                                                         |
|-----------------------------------------------------|---------------------------------------------------------|
| <b>Hans Apel</b>                                    | Minister of Finance, Germany                            |
| <b>Abdelkader Benslimane</b>                        | Minister of Finance, Morocco                            |
| <b>Emilio Colombo</b>                               | Minister of the Treasury, Italy                         |
| <b>D.H. Coore</b>                                   | Deputy Prime Minister and Minister of Finance, Jamaica  |
| <b>F.D. Crean</b>                                   | Minister for Overseas Trade, Australia                  |
| <b>Willy De Clercq</b>                              | Minister of Finance, Belgium                            |
| <b>W.F. Duisenberg</b>                              | Minister of Finance, the Netherlands                    |
| <b>Fawzi El-Kaissi</b>                              | Governor of the Central Bank, Iraq                      |
| <b>Jean-Pierre Fourcade</b>                         | Minister of Economy and Finance, France                 |
| <b>Alfredo Gomez Morales</b>                        | Minister of Economy, Argentina                          |
| <b>Denis Healey</b>                                 | Chancellor of the Exchequer, United Kingdom             |
| <b>Roberto Incer B.</b>                             | President, Banco Central de Nicaragua                   |
| <b>Per Kleppe</b>                                   | Minister of Finance, Norway                             |
| <b>Masayoshi Ohira</b>                              | Minister of Finance, Japan                              |
| <b>Sambwa Pida Nbagui</b>                           | Governor, Banque du Zaïre                               |
| <i>represented by Alternate, Antojne W. Yameogo</i> | <i>Executive Director of the Fund</i>                   |
| <b>Alhaji Shehu Shagari</b>                         | Nigeria                                                 |
| <i>represented by Alternate, C.N. Isong</i>         | <i>Acting Federal Commissioner for Finance, Nigeria</i> |
| <b>William E. Simon</b>                             | Secretary of the Treasury, United States                |
| <b>Mario Henrique Simoesen</b>                      | Minister of Finance, Brazil                             |
| <b>C. Subramaniam</b>                               | Minister of Finance, India                              |
| <b>Ali Wardhana</b>                                 | Minister of Finance, Indonesia                          |

last Annual Meeting that we would first have to study the problem of recycling and that we would bring an analysis and proposals to the meeting of the Interim Committee that has now taken place and that negotiations to actually borrow for this purpose would take place after that. So that still has to be worked out. Nevertheless, I can say that we of course have had some informal contacts with surplus countries and these have been encouraging, so that I am hopeful that we can arrange this amount of borrowing in the next few months. With respect to contributions to this interest account, we have received very positive — positive, well, I can say in most cases, commitments by member countries in the Interim Committee to contribute to this account.

**QUESTION:** In the much quoted January Foreign Affairs article by Robert Roosa and some other Trilateral Commission members, they state that the international financial situation is actually much graver than is generally admitted and that if very comprehensive supranational measures aren't taken immediately, that the world will be facing the danger of various national sectors declaring debt moratoria which Roosa and his friends equated with Communist revolution. Now, in view of this fact and particularly that the International Caucus of Labor Committees is organizing internationally around precisely such a programme and that what you put forward here is completely inadequate in terms of what Mr. Roosa said would be necessary, how do you see the political situation shaping up?

**MR. TURNER:** I think I said earlier that the risks of unilateral action by nations in balance of payments deficits difficulty has now been minimized because of the facilities that were put in place today. And I think looking over the full amplitude of the other facilities that I described, both in the private and public sector, that are now in place, that the risks that Dr. Roosa des-

cribed have been immeasurably reduced. Now, as the Managing Director said, there is an ongoing surveillance responsibility in the Fund, and Ministers gave the Managing Director the authority to look over the full variety of resources available to him within the Fund and elsewhere.

**QUESTION:** This size of the expanded facility is much lower than most people had been suggesting. Is this smaller out of a feeling that not as much is needed as was suggested, out of a feeling that this may be adequate for six months or nine months and then can be extended if need be, or is it held to this level out of concern that more money may not be made available by the surplus countries?

**MR. TURNER:** Well, the amount of the facility is a result of negotiation. The terms of the decision call for a review to explore what other resources are available within the Fund itself, and call for a continued surveillance by the Fund. So that I would think that the amounts now in place will do the job. If, by the time we meet in June again we have to take another view, then we'll take another view. But at the moment it's \$ 6 billion, or SDR 5 billion. There's an urgent call to the Executive Directors of the Fund to explore the other resources available to them within what they've already got from members' contributions, and of course we will be attempting to expand whatever other bilateral or multilateral facilities are available.

**MR. WITTEVEEN:** May I add to that that our estimate of what would be the probable use of this facility in the present year was a very wide margin between SDR 6 billion and SDR 12 billion. So the amount we have now decided on is very near — when we also take into account the available means leftover from last year, it's very near to the lower limit. And I think when we look at the experience of last year, it is quite possible

that this will do the job, as you said, Mr. Chairman.

### Moves to Ease Burden of Hardest Hit Members

**Press Communique of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries**

1. The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its second meeting in Washington on January 17, 1975 under the Chairmanship of Mr. Henri Konan Bedie, Minister of Economy and Finance for the Ivory Coast. The meeting was held in the headquarters building of the Pan American Health Organization. Mr. Robert S. McNamara, President of the International Bank for Reconstruction and Development, and Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Abdel Wahab Labidi, President of the African Development Bank, Mr. Shiro Inoue, President of the Asian Development Bank, Mr. M.G. Mathur, Deputy Director-General of the GATT (General Agreement on Tariffs and Trade), Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank, Mr. E. van Lennep, Secretary-General of the OECD (Organization for Economic Cooperation and Development), Mr. Maurice Williams, Chairman of the DAC (Development Assistance Committee), Mr. Mahjoob Hassanain, Director of the Economic Department of OPEC (Organization of Petroleum Exporting Countries), Mr. Gabriel van Laethem, Under Secretary-General of the United Nations and Dr. Raul Prebisch, Special Representative of the Secretary General for the United Nations Emergency Operation, Mr. Gamani Corea, Secretary-General of UNCTAD (United Nations

Conference on Trade and Development), and Ambassador Paul Jolles of Switzerland.

2. The Committee received several reports presented by the Executive Secretary, Mr. Henry J. Costanzo, on the initial work programme adopted at the inaugural meeting, related to the situation of the most seriously affected developing countries, measures to adjust to the new outlook in commodity prices, and the future work programme of the Committee.

3. The members of the Committee engaged in a general exchange of views regarding the present situation and prospects of the developing countries. Members noted that many developing countries found themselves in serious difficulties as a result of substantial adverse changes in their terms of trade and an inadequate flow of external capital and were being forced to take adjustment measures in many cases harmful to their long-term economic and social development. The members recognized that this situation was likely to continue in the immediate future, and expressed their particular concern over the pressing difficulties in prospect for the poorest, and the most seriously affected of the developing countries.

The Committee agreed that the industrialised countries should seek to adopt such adjustment measures considered necessary in their circumstances in such a way as to avoid any reduction in the net flow of real resources to the developing countries, seeking to improve the conditions under which developing countries and international development finance institutions may have access to their capital markets, and to improve the real volume and the quality of official development assistance provided to the developing countries, and should avoid trade restrictions that could negatively affect developing countries' exports. The Committee also noted the importance of continued and expanded co-

operation, particularly in the transfer of technology and management skills, between the industrialized and surplus oil producing countries, in order to promote the development of the latter countries and thereby to assist the overall long-range adjustment process and also in order to promote the development of other developing countries.

The Committee recognized the important and increasing flow of resources being made available by the surplus oil producing countries to the developing countries and to the international financial institutions. In welcoming such interest and participation on the part of these countries, the Committee agreed that these countries should seek to continue and expand this flow of resources, in accordance with their financial capacity to do so.

4. The Committee agreed that the situation of the most seriously affected countries requires urgent treatment, and that measures should be taken to cover the short-term requirements created by the present international situation. In this context, the Committee welcomed the action taken by the Interim Committee with respect to a continuation and expansion of an oil facility in the Fund and the establishment of a Special Account in order to reduce for the most seriously affected members the burden of interest payable by them. The Committee also reviewed several additional possible courses of action. It was agreed that the Executive Boards of the Bank and the Fund should be invited to study the desirability of creating a special trust fund that would provide, for the period immediately ahead, additional highly concessional resources to meet the requirements of the most seriously affected countries, and the possible modalities of such a fund.

5. The Committee invited the Executive Board of the Bank to undertake an immediate study of the concept of "third window" lending by the Bank

on terms intermediate between those of the Bank's regular loans and those of IDA's (International Development Association) concessional credits. The Committee welcomed the willingness expressed by some members to support and to provide financial resources for such a facility.

6. For its immediate work programme, the Committee instructed the Secretariat to propose such measures as might be considered for early implementation to promote increased use of capital markets by developing countries, and to facilitate their access to such markets; to report to the Committee on an appropriate work programme in response to the conclusions of the recent World Food Conference on the financing of food, fertilizer, and food production; and to review the adequacy of existing information systems on the flow of resources to the developing countries.

7. The Committee also agreed that the future work of the Committee should focus on the basic long-term needs of the developing countries and, in this connection, welcomed the intention of the President of the Bank to initiate urgently a study of the capital requirements of developing countries to maintain a reasonable rate of growth in per capita income for the remainder of the decade. The Committee instructed the Executive Secretary to initiate a broad and continuing review of the question of the transfer of real resources, using as a basis the work of the Committee of 20 and taking into account the conclusions of the Bank's study, in order to formulate recommendations as to how the required transfers of real resources might be met through existing or new financial mechanisms and arrangements, including arrangements for commodity price stabilization. The Committee welcomed the study to be undertaken by the Executive Directors of the Fund, as agreed by the Interim

Committee, on the fund's facilities for compensatory financing and assistance to international buffer stocks of primary products.

8. The Committee was glad to note the announcements made at the meeting of actions which permit the full effective-

ness of the IDA fourth replenishment, and urged sympathetic consideration of the proposals recently put forward by the World Bank for an increased programme of normal Bank lending.

9. The Committee agreed to hold its next meeting in

#### Membership of the Development Committee and Participants in the Second Meeting

|                                   |                                                                              |
|-----------------------------------|------------------------------------------------------------------------------|
| <b>Abdlatif Y. Al-Hamad</b>       | Director General, Kuwait Fund for Arab Economic Development, Kuwait          |
| <b>Hans Apel</b>                  | Minister of Finance, Germany                                                 |
| <i>represented by Alternate,</i>  |                                                                              |
| <b>Karl Otto Poehl</b>            | <i>Undersecretary, Ministry of Finance, Germany</i>                          |
| <b>Chedly Ayari</b>               | Minister of Planning, Tunisia                                                |
| <b>Henri Konan Bedie</b>          | Minister of Economy and Finance, Ivory Coast                                 |
| <i>represented by Alternate,</i>  |                                                                              |
| <b>Sidi Ould Cheikh Abdullahi</b> | <i>Minister of Planning and Industrial Development, Mauritania</i>           |
| <b>George M. Chambers</b>         | Minister of Finance, Trinidad and Tobago                                     |
| <b>Emilio Colombo</b>             | Minister of the Treasury, Italy                                              |
| <b>F.D. Crean</b>                 | Minister for Overseas Trade, Australia                                       |
| <b>Willy De Clercq</b>            | Minister of Finance, Belgium                                                 |
| <b>W.F. Duisenberg</b>            | Minister of Finance, the Netherlands                                         |
| <b>Kjell-Olof Feldt</b>           | Minister of Commerce, Sweden                                                 |
| <b>Jean-Pierre Fourcade</b>       | Minister of Economy and Finance, France                                      |
| <b>Denis Healey</b>               | Chancellor of the Exchequer, United Kingdom                                  |
| <i>represented by Alternate,</i>  |                                                                              |
| <b>R.B.M. King</b>                | <i>Permanent Secretary, Ministry of Overseas Development, United Kingdom</i> |
| <b>Jose Lopez Portillo</b>        | Minister of Finance and Public Credit, Mexico                                |
| <b>Carlos Massad</b>              | Economic Adviser, Ministry of Economic Coordination, Chile                   |
| <b>Masayoshi Ohira</b>            | Minister of Finance, Japan                                                   |
| <b>Hussain bin Onn</b>            | Deputy Prime Minister and Minister of Finance, Malaysia                      |
| <i>represented by Alternate,</i>  |                                                                              |
| <b>Chong Hon Nyan</b>             | <i>Deputy Minister of Finance Malaysia</i>                                   |
| <b>William E. Simon</b>           | Secretary of the Treasury, United States                                     |
| <b>C. Subramaniam</b>             | Minister of Finance, India                                                   |
| <b>John N. Turner</b>             | Minister of Finance, Canada                                                  |
| <b>Cesar E.A. Virata</b>          | Secretary of Finance, the Philippines                                        |

Paris during the first part of June 1975.

# **Communique of Inter-governmental Group of 24 on International Monetary Affairs**

The Inter-governmental Group of 24 on International Monetary Affairs, whose purpose is to ensure that the specific interests and economic circumstances of the developing countries are taken into account in the reform of the international monetary system, was established in accordance with the programme of action adopted on November 7, 1971 in Lima by the Group of 77, representing the developing countries.

## **Communique**

1. The Ministers of the Group of 24 held their Ninth

Meeting at the headquarters of the International Monetary Fund, Washington, D.C. on January 13 and 14, 1975. Mr. N.M. Perera, Minister of Finance of Sri Lanka, was in the chair, with Mr. Juan Elespuru, representing the Minister of Economy and Finances of Peru, and Mr. K. Donkoh Fordwor, Special Assistant responsible for Finance of Ghana, as Vice-Chairmen. The meeting was attended by Mr. H. J. Witteveen, Managing Director of the International Monetary Fund, Mr. Gamani Corea, Secretary-General of the United Nations Conference on Trade and Development, Mr. R. McNamara, President of the World Bank, and Mr. Henry J. Costanzo, Executive Secretary of the joint Ministerial Committee of the

Boards of Governors of the World Bank and International Monetary Fund on the transfer of real resources to developing countries.

2. The meeting was preceded by the Eighteenth Meeting of the Deputies with Mr. Lal Jayawardena, Sri Lanka, in the chair, Mr. Carlos Santistevan, Peru, as Vice-Chairman, and Mr. Danso Misa, Ghana, as rapporteur.

3. Ministers reviewed the world economic situation and expressed concern at the adverse impact that the intensification of recessionary trends in the industrialized countries was having on the already precarious balance of payments position of most of the developing countries. They expressed the

hope that effective measures would be taken by industrialized countries to stimulate economic activity without adding to inflationary pressures. They stressed the need to avoid the escalation of trade restrictions and discriminatory trade arrangements on the part of industrialized countries.

4. Ministers reiterated their view that the International Monetary Fund was the appropriate organ for agreement on international monetary questions, and that all decisions affecting the international financial community should be negotiated and implemented within the Fund.

5. Ministers expressed their dissatisfaction that important decisions affecting the inter-

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national monetary system had been taken outside the International Monetary Fund.

6. Ministers agreed that there was a continuing and increased need for official financing facilities to meet current payments problems as well as to foster economic development. They therefore supported the continuation of the oil facility in 1975, as already provided for, without unduly burdensome terms and conditionality so that it would give adequate access to members, particularly to those in greatest need. Ministers saw an urgent need for interest relief for the most seriously affected low income countries purchasing under the facility. In their view, the resources for such relief should be provided within the International Monetary Fund by members with the capacity to do so. Ministers considered that the trust fund proposal before the Interim Committee was not a realistic mechanism for this purpose, nor was it acceptable as an alternative to the Link; but they were agreeable to studying it, along with other trust fund proposals, in the context of solutions that might be sought on other issues. Ministers also expressed their conviction that additional means should be found to meet the payments needs of developing countries arising at this time, including the activation of the Extended Fund Facility, which should be expanded and made more flexible.

7. Ministers also stressed the need for longer-term development finance. They welcomed the additional development assistance provided by the major oil exporting countries, as well as the balance of payments support given by them.

Ministers emphasized that the capital needs of the developing countries called for the provision of additional funds by all countries with the capacity to supply them, as well as the establishment of new multilateral facilities of a long-term character.

8. Ministers reiterated their view that any solution to the question of gold should not jeopardize the effective implementation of the link and the international management of global liquidity; that it should serve to promote the objectives of the reform, with the SDR becoming the principal reserve asset and with the role of gold and reserve currencies being gradually reduced; that it should not accentuate the already inequitable distribution of world liquidity; and that it should be internationally agreed in the Fund. Ministers would only accept new arrangements for gold on the basis of these principles.

9. Ministers considered that an increase in IMF quotas was urgently needed and should not be delayed. In their view, the enlargement of the size of the Fund should be of the order of 50 per cent. Ministers were emphatic in their support for a major increase in the quota shares of major oil exporting countries and for a satisfactory increase in those of the other developing nations. Ministers agreed that the gold subscription to quota increases should cease to be obligatory.

10. Ministers reiterated their position that they would only accept a package of amendments that achieved a fair balance between the interests of

developing countries and other countries. In this connection they reaffirmed their strong support for the establishment of a link consisting of direct allocations of "linked" SDRs to developing countries.

11. Ministers also discussed other proposals for amendment of the Articles of Agreement of the International Monetary Fund. They expressed their opposition to the incorporation of a "trade pledge" in the Articles of Agreement. They also registered their support for amendments designed to strengthen the role of the SDR and to facilitate the operation of the General Account, and called for additional measures to increase and improve the access of member countries to Fund resources. Ministers reaffirmed their stand against the legalization of floating other than in particular circumstances under Fund authorization and surveillance in a manner designed to prevent undue instability in the values of the major trading currencies. Ministers were of the view that a decision on the establishment of a Council should be taken after sufficient experience had been gained with the Interim Committee.

12. Ministers expressed their wish to work towards a set of amendments to the Articles of Agreement of the International Monetary Fund that would constitute an equitable code of conduct setting forth the rights and duties of states in the international monetary sphere.

13. Ministers exchanged views on the issues before the forthcoming meeting of the Development Committee. Ministers recognized the urgency of the problems facing the most seriously affected

countries, and agreed that the Committee should also address itself to the capital needs of all the developing countries, both in the immediate future and in the longer term. Ministers expressed their strong support for the five-year lending programme proposed by the management of the World Bank and saw a pressing need for additional multilateral facilities to finance development. In these contexts, they favoured the establishment, as soon as possible, of a special fund such as that proposed by Iran, with contributions from both developed and major oil exporting countries, to be managed by donors and recipients in a balanced manner. Equally, they endorsed the proposal to establish a third window in the World Bank as soon as possible; they urged that the requisite interest subsidy should be sought from all possible sources. They also drew attention to the need to complete the replenishment of IDA without further delay.

14. Ministers also saw the need to explore proposals capable of prompt implementation to improve the access of developing countries to financial markets. Ministers favoured increased programme lending by the IBRD and IDA. They agreed that the future work of the Committee should also include the proposal for a supplementary financing scheme within the World Bank, first mooted a decade ago, and concrete proposals for financing arrangements to protect and expand the real value of the export earnings of developing countries from their trade, especially in primary commodities, in cooperation with UNCTAD and the International Monetary Fund.

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# Danger within

open to Mrs Gandhi, two were fairly obvious. She could hold a general election more or less immediately and demonstrate that she and her party retained the confidence of the electorate. The other course would be to negotiate with Mr Jayaprakash Narayan and also the leaders of the major opposition parties a minimum agreed programme for dealing with the urgent political and economic issues facing the country. It was argued that, should she shy at making a choice and continue to drift or dither, her strength in the country as well as in her own party would undergo steady and perhaps rapid erosion. This journal felt that discussion or consultation with Mr Jayaprakash Narayan would however present problems for the prime minister since the former had neither an immediately relevant political programme nor even any very clear political objective. It was also pointed out then that, since Mr Jayaprakash Narayan seemed determined not to accept any kind of political responsibility in the sense in which the term was generally understood, it would perhaps be better for the country if the prime minister were to exercise the option of an early election and, having once again secured for her party a majority in the Lok Sabha — a result which could be considered certain — proceed to implement a two-fold programme of restoring political and economic stability while dealing sternly with agitational challenges to the constitutional processes of a parliamentary democracy.

As it has turned out, the prime minister has not gone in for an early election. It is true that she could still appeal to the ballot box in the third or the fourth quarter of 1975 rather than in the first quarter of 1976, but even if she does so, it will not be of much strategic significance. The position would have been different had she gone to the country during this January-February.

It now remains for Mrs Gandhi to make up her mind to initiate talks with Mr Jayaprakash Narayan and other political leaders even if there can be no guarantee that those negotiations would be fruitful. Otherwise, dissent within her party is bound to grow and it is also sure to come increasingly into the open. It is no longer possible for Narora-type party conclaves to help keep the lid on this ferment. Politicians of the kind of Mr Chandra Shekhar or Mr Krishan Kant are not wide-eyed idealists. That they have felt it safe to call publicly for Mrs Gandhi initiating a dialogue with Mr Jayaprakash Narayan shows that they are reasonably sure of a considerable audience within their party. In other words the erosion of the prime minister's political position is now an active process.

As the days go by, Mrs Gandhi is likely to be increasingly on the defensive. This would be all the more so because more and more of her partymen are becoming uneasy about the infiltration of her party by CPI influences. So long as Mrs Gandhi's authority remained supreme those who felt unhappy at the easy access to her counsels which certain CPI leaders enjoyed or about the presence of fellow-travellers in the government, could do precious little about either. Now, however, they are clearly in a position to insist on the party taking seriously the threat of disruption posed by the CPI as well as on Mrs Gandhi herself rendering a proper account to her partymen of her guardianship of the larger interests of their party. The feeling that some of her colleagues and many of her followers have that her flirting with the CPI is all wrong and the view apparently held by a section of the rank-and-file that Mrs Gandhi should initiate a dialogue with Mr Jayaprakash Narayan surely make for a formidable mixture of tensions within the ruling party. To expect them to die down of their own would be, for the prime minister, to give hostages to fortune. In the circumstances it would be a miracle indeed if the harassed Mrs Gandhi were at all able to give serious thought to the economic problems of the country.

It follows that such of us as are concerned about the government giving positive

SOME TIME ago, on November 29 last, this journal suggested in an editorial that among the limited number of options

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leadership to the national economy should wish for an early end to the political confusion. The present state of affairs helps nobody; on the contrary, it encourages some very odd behaviour within the government, as evidenced by the public displays put up by certain junior ministers. We thus find Mr Mohan Dharja publicly complaining that a government of which he continues to be a member has not acted on the report he had submitted as the chairman of a committee which had addressed itself to the issue of the proper distribution of essential commodities and articles of mass consumption. Earlier there was the even more strange case of Mr B.P. Maurya, minister of state for Industry and Civil Supplies, taking the ministry of Commerce to task for the latter's alleged step-motherly attitude towards cotton textile mills in the public sector. He had also expressed a grievance that the National Textile Corporation, which had been charged with rehabilitating or running sick textile mills, was not receiving reasonable considera-

tion of its credit needs from commercial banks.

We are not suggesting that inter-ministerial co-ordination is perfect or that government's functioning does not leave anything to be desired. Nevertheless, if it were to become a habit with ministers to castigate or find fault with government policies in public in the manner in which Mr Dharja or Mr Maurya has done, the framing or administration of government policies is bound to become even more chaotic than it is at present. Let there be by all means discussion and debate within the government on policy issues or particulars of administration, but let not ministers, attempting to lobby for their departmental points of view or, perhaps, simply for their political image, create an impression in the public mind that the central authority in government is weakening. It is up to the prime minister to ensure in time that the government's credibility is not attacked and damaged from within and without.

## Problem of its own making

THE FORTHCOMING central and railway budgets for 1975-76 have more than usual significance as it is now felt that there may not be any snap poll and both the union Finance and Railway ministers will be presenting to Parliament regular budgets with new proposals for raising additional resources. The question is whether these two ministers will find it desirable to mobilise additional resources in a big way after the massive effort made in 1974-75 on four occasions. The central budget proposals sought to raise Rs 211 crores when the regular budget was presented in February last year. In the interim budget in July the new imposts were aimed at securing Rs 232 crores in a full year and Rs 136 crores for 1974-75 before providing for the share of states. Likewise, the revision of passenger fares and freight rates in the two railway budgets meant an increase in the burden on the users of railway services by Rs 371 crores in a full year. In the regular budget the additional revenue

through new levies was estimated at only Rs 136 crores and in the supplementary budget at Rs 235 crores in a full year and at Rs 140 crores in a little under seven months.

The Posts and Telegraphs department too effected changes in its tariff to fetch an extra amount of Rs 43 crores in 1974-75 and Rs 57 crores in a full year. Between the central and railway budgets and the revised charges of the Posts and Telegraphs departments the increase in the burden on taxpayers and users was thus Rs 871 crores in a full year. With these revised rates and levies being in full force in 1975-76, there will be increase of revenues to the extent of Rs 205 crores. It can therefore be said that a good part of the tax effort needed for the next financial year has been already anticipated by the central exchequer and with the levy of heavy excise and import duties and high direct taxes, there will automatically be a big increase in revenues if there is a higher level of output and incomes.

It is puzzling however to note that the ways and means position of the cen-

tral government continues to be difficult and even with the non-payment of five instalments of dearness allowances and the slashing of Plan outlays, the overall deficit is likely to be in excess of the budget estimate of Rs 125 crores. There is no warrant however for the speculation in a section of the press that the uncovered deficit may even be Rs 800 crores.

This is because the changes in holdings of rupee securities, treasury bills and investments of the Reserve Bank do not indicate any unusual trend and if the experience of the first quarter of 1974 is any guide, the aggregate deficit may be less than Rs 400 crores. What precisely are the factors that have been responsible for the rather strained ways and means position of the government? The borrowing programme for the current financial year has been very nearly completed with the issues of loans on three occasions. The receipts under the Small Savings campaign have been quite encouraging while the budgetary estimates in respect of foreign aid receipts are likely to be more than fulfilled. Apart from larger aid from the consortium and communist countries, the wheat loan from USA and the east European community is likely to result in additional receipts of Rs 150 crores. The capital budget total may thus be higher by Rs 250 crores as compared to the estimates.

The revenue budget also is bound to make satisfactory showing on the receipt side as customs revenue has recorded an increase of Rs 174 crores in the first seven months of 1974-75 while it was expected that there would be a net decline of Rs 37 crores in a whole year. Similarly, excise duties have been fetching sizeable revenues, the receipts in the first seven months being higher by Rs 418 crores while they were estimated to rise by only Rs 500 crores in a whole year. The increases in direct taxes were not expected to be more than Rs 95 crores while the collections in the first six months were Rs 56 crores additionally. It will therefore be seen that the revenue budget total on the receipt side may be higher by at least Rs 400 crores over the budget estimates including the effect of new taxes, in both the budgets. As the

capital budget receipts also are likely to be better by Rs 250 crores, the union Finance minister is in a position to meet overruns in expenditure of even Rs 650 crores while providing for Plan outlays on the contemplated basis.

Under these circumstances, if the overall deficit is likely to be Rs 400 crores, the overrun in expenditure must be Rs 900 crores. When it is being persistently reported that Plan allocations are only being reshuffled and there might even be a net reduction in Plan outlay in the central sector, does it mean that non-Plan expenditure has increased by Rs 1,000 crores as a result of heavier food subsidies, a larger salary bill and bigger assistance to the states for drought and flood relief operations? In respect of the last mentioned item it has been repeatedly emphasised that the states will be given only advance allocations for carrying out relief operations and the adjustments will be made suitably in 1975-76 allocations. If this policy is implemented, there will be a technical swelling of expenditure or deficit if need be in 1974-75 and it should be possible to effect a corresponding reduction in expenditure in 1975-76. For the first time in the history of central budgeting the union Finance minister, Mr C. Subramaniam will be presenting to Parliament revenue and capital budgets which may comfortably exceed an aggregate of Rs 10,000 crores! This certainly is a formidable total and there may be widespread discontent if fresh proposals are made for raising additionally Rs 200 crores or more.

There is not much scope for increasing direct taxes. On the contrary, it is generally expected that the exemption limit for individual assesseees will be raised while it has been argued in industrial circles that the new budget should contain concessions which will be helpful to industrial units in tackling problems arising out of inflation accounting. If new industrial units have to function profitably and the established units have to carry out their modernisation and replacement programmes and execute also expansion schemes, there will have to be some new concept for computing depreciation charges which will be in excess

of 100 per cent of book costs, apart from general rebates in excise duties for new units and additional production.

The railways too have been acquitting themselves creditably recently and thanks to the improvement in operating efficiency and the impact of higher passenger fares and freight rates, the budget estimates may even be exceeded. As the railways will be in a position to secure additional revenues of Rs 95 crores with the supplementary charges being in force for a full year and they can also handle a larger volume of passenger and freight traffic, there is no justification for raising further passenger and freight rates, though it will not be a surprise if on the plea of inadequacy of resources for Plan purposes, there are fresh levies of Rs 100

crores. The difficulty lies in segregating revenues intended for development purpose and preventing undue increases in non-Plan outlays. Since the Finance and Railway ministers may not like to court unpopularity with the elections in the offing and there is at the same time anxiety to secure additional revenues, it remains to be seen how the contradictions in thinking will be resolved. It is necessary however to remember that the required resources will become available automatically with a revival in economic activity, new techniques for financing schemes and elimination of subsidies in the supply of electricity, irrigation and other services by the states. The centre was never more happily placed in regard to its revenue sources. If it is in a sad predicament it has only itself to blame.

## More power for West Bengal?

WHEN THE government of West Bengal set up in last April a high-powered commission to examine the various aspects of power generation and distribution, it was thought that Mr Siddhartha Shankar Ray, the chief minister, had taken a bold step to deal with a problem that had caused a great deal of concern to the people especially to the business community. For over two years, the state was confronted with a serious and persistent shortage of power, which had not only severely dislocated industrial production, expansion and exports but had also caused immense hardship to the public. The development programmes relating to agriculture and rural electrification had also received a sharp set-back due to the highly irregular and utterly inadequate supply of power. Though the causes of the crisis had been generally known and had also been enquired into by some departmental committees set up by the state government, it was felt that only a thorough probe conducted by a competent commission would reveal the real reasons and would also be able to make appropriate recommendations to tackle the problem effectively. The government therefore acted wisely in appointing a

commission for this purpose with Dr. S. Burman, former chief justice of the Orissa High Court as the chairman and Mr. A. K. Ghosh, former vice-chairman of the Central Water and Power Commission, and Dr. A. Bhattacharyya, Member of the Planning Board, as its members.

The commission was called upon to examine the performance of the different power generating agencies and find out the reasons for the shortfall in generation, to ascertain the causes for the delay in commissioning the unit number one of the Santaldih power plant, to assess the steps taken by the present government in accelerating the generation and supply of power in rural electrification and supply of power to the agricultural sector, to ascertain the limitations that were existing at the time of their assuming office and those that were still persisting; and to examine the progress being made towards the implementation of the new schemes to be taken up under the fifth five-year Plan according to the phased programme drawn up with a view to advising on the prerequisites for achieving the targets according to schedule.

The commission submitted its report in the middle of December but the government has not released even a sum-

mary of its recommendations. Press reports however indicate that the commission has critically commented on the lack of a clear and coherent policy for the development of power, failure to ensure effective coordination of the various generating agencies, and the deficiencies of the state's department of Power. The commission has suggested restructuring of the Power department, take-over of the power units of the Durgapur Projects Ltd., by the state electricity department and the appointment of a permanent high level state power commission for the over-all control of the Power department and all other power agencies.

The commission has refuted the allegation made by the State Electricity Board that the Calcutta Electric Supply Corporation was responsible for causing the crisis by not generating sufficient power and has, on the other hand, complimented the corporation on its performance. The commission has also criticised the manner in which the state government implemented the programme of load-shedding and connections were given for new consumers at a time when the state was passing through a severe scarcity of power and even industries of great importance to the country's export trade had drastically cut their production.

It is hoped that the government will release the full report of the Burman commission as early as possible so that the public as well as the business community will be able to know what exactly were the factors that caused the crisis and how it should be tackled effectively. The fact that the commission has been severely critical of some of the policies and procedures adopted by the government of West Bengal should not certainly be a justification for not taking the people into confidence about its findings and recommendations. While announcing the commission's terms of reference, the government said that these were "definite matters of public importance" and therefore public cooperation should be sought in rectifying the past mistakes and in evolving an intelligent and integrated policy which will help to avoid the kind of power famine which has plagued the state's economy in recent years.

The government has recently permit-

ted the Calcutta Electric Supply Corporation to carry out its expansion and modernisation programme though this should have been done long ago. The government should now see to it that the corporation is able to get the funds and facilities to expedite the implementation of its schemes. At the same time, the government should reorganise its department of Power, more or less on the lines suggested by the Burman commission and ensure that the generating agencies under its control are able to work at the highest level of efficiency.

Meanwhile, reports have appeared in the press that the supply of power in Calcutta in the coming summer will be much better than in the previous years. It is stated that the measures adopted to complete the second unit of the Santaldih power station as well as the Purulia-Calcutta transmission line have been satisfactory and that Calcutta will be able to get about 100 MW of additional power. The early completion of the transmission line connecting Durgapur with north Bengal and the improved power generation by the DVC are also expected to augment supply. But industrial consumers have expressed doubts about the adequate availability of power in the coming months, though, for the time being, there is some improvement due to the fall in demand in the winter season and the prolonged strike in the jute industry.

Mr. D. P. Chakravarti, President of the Indian Chamber of Commerce, Cal-

cutta, said at its third quarterly general meeting held on January 27 this year that "there is a danger that it (power supply) may deteriorate with the onset of the summer months when the load factor will increase unless the second unit in Santaldih comes up as per schedule and the transmission lines are completed". He complained that the target dates continued to be extended for some reason or the other. He also said that it was a matter of concern that there was considerable uncertainty about the supply of power from the long-term point of view. This anxiety seems to be justified in view of the fact that the state planning board has estimated that there will be a deficit of as much as 1851 MW by 1978-79. West Bengal's Power minister has recently revealed that the implementation of many power projects was being delayed due to the paucity of resources.

According to the state government's programme, Santaldih's second unit was to be completed by December 1974, the third unit by December 1975 and the 4th unit by December 1976. The Bandel 5th unit is scheduled to be completed by March 1978, and the three Kolaghat units by October 1978, April 1979 and October 1979 respectively. It is important to complete these projects according to schedule so that industrialists can plan their schemes with confidence. The government of India should also keep a close watch on the progress of these power projects and, where necessary, provide them with sufficient funds to facilitate their expeditious implementation.

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## *Eastern Economist 30 Years Ago*

FEB. 16, 1945

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The Railway Budget for 1945-46, which Sir Edward Benthall described as "somewhat unorthodox," far from being heterodox in the more acceptable and fashionable sense of the term, hardly fulfils, in our view, the modest financial cannons of a business enterprise in the abnormal circumstances which the railways have had to face in the last five years and have in store after the war. The transport system has been so mercilessly overworked and the railways' finances

so recklessly appropriated for general revenue that the war-time buoyancy of earnings has left them with utterly insufficient financial reserves to repair the physical damage done. The present budget whose most important feature is that it provides for increased earnings to be utilized for writing down the high cost of war-time purchases of rolling stock and construction, does only partial expiation for the fallacies of the past.

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# FROM THE CAPITAL'S CORRIDORS

R. C. Ummat

## Steel Plants' Product-Mix • Indo-West Asian Economic Collaboration • Sheikh Yamani's Visit • New Directions to Economy?

THE PRODUCT-mix of the various integrated steel plants in the country might undergo a substantial change in the near future. The Steel Authority of India (SAIL) is understood to be seized of this matter.

Following a sharp decline in the tempo of construction activity this year, which is not expected to pick up in the near future also because of anti-inflationary measures and the tight cement supply position, it is felt that the production of construction [steel—bars, rods, beams, etc.—can be reduced considerably.

The case of such products as rails is no different. Due to budgetary constraints, the railways are not in a position to place any large orders on steelworks for this product. Some electricity boards are said to be utilizing rails as lamp posts, but even the production of this item may have to be scaled down if sufficient export orders are not available.

### close coordination

The proposed change in the product-mix of steel plants, it is learnt, will be done in the light of the demand, both domestic and export, for the various categories of steel. As already indicated last week in this column, steel imports next year are envisaged to be curtailed by about 33 per cent from the current year's level of about a million tonnes. The production and import programmes are proposed to be closely coordinated.

Generally speaking, the emphasis in production would be shifted from thicker rounds, rails, skelp, etc., to plates and heavy structurals needed by the engineering industry.

The total output of saleable steel is envisaged to be raised next year by about

a million tonnes from this year's likely level of 5.5-5.7 million tonnes. This should be possible as Bokaro will also start yielding sizeable quantities next year.

The delegation of the Federation of Indian Chambers of Commerce and Industry, led by Mr K. K. Birla, which visited several west Asian countries, including Saudi Arabia and Iraq, a few days ago is understood to have returned with very favourable impressions about the Indo-west Asian trade and economic collaboration. It is said to have found the climate quite conducive to joint ventures not only in India and west Asia but also in the third countries. Sizeable investments can be made by the oil-rich west Asian nations in these ventures for which technical expertise and manpower can be supplied by India.

The delegation feels that India can assist the west Asian nations particularly in the building up of infrastructure facilities there. The prospects of setting up industries which can be based on local or Indian raw material resources are also considered very bright. These include such industries as fertilizers, chemicals and steel.

Export prospects from India, the delegation feels, are promising not only for many consumer items but also for equipment and machinery required for the development of several medium-sized industries—besides steel, fertilizers and chemicals—which the west Asian nations might prefer to go in for.

The image of India as a country which can technically assist west Asia, the delegation thinks, has improved a great deal in the recent past. This should augur well for Indo-west Asian economic co-operation.

The bright prospects of Indo-west

Asian collaboration in industrial ventures as well as trade have also been confirmed by the Saudi Arabian minister for Petroleum, Sheikh Ahmad Zaki Yamani who was here last week on a state visit. The Sheikh disclosed that his country was very much interested in setting up fertilizers, chemicals and drugs manufacturing units. India could render a good deal of technical assistance in these fields.

The establishment of an Indo-Saudi Arabian Joint Commission has been proposed during Sheikh Yamani's visit. One of his colleagues, the state minister for Planning, is expected to visit New Delhi later this month to sign an agreement in this regard. The joint commission would identify and implement specific joint ventures.

Sheikh Yamani, however, ruled out the possibility by supplying Saudi Arabian oil to developing countries like ours at concessional prices. He as well did not favour oil exports on deferred payment basis. His country, he stressed, would sell oil only for hard cash at market prices. The developing countries, however, could be assisted, through provision of long-term loans on soft terms out of a development fund which had been set up by Saudi Arabia out of the surpluses available from oil exports. Sheikh Yamani expressed the view that for countries such as India it would make little difference whether aid was given for oil imports or for setting up new projects. He disclosed that India had not made any request for an increase in oil supplies from Saudi Arabia.

The Saudi Arabian minister reiterated that his country would resist further increase in the oil prices for this might aggravate global recessionary tendencies to combat which such countries as the United States and the Federal Republic of Germany are adopting reflationary measures.

The Sheikh also expressed himself against a conference on oil between the OPEC and the other developing countries. He thought that all developing countries,

including oil producers, should stand together to face the industrialised nations. He favoured a tripartite conference in which not only oil but also all raw materials should be discussed along with such subjects as transfer of technology, transfer of real resources and the world monetary system.

Another important disclosure made by Sheikh Yamani was that his country did not favour assisting the setting up of oil refineries abroad. It wanted to have its own refineries so that more and more petroleum could be exported instead of crude oil.

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Addressing the Consultative Committee of Parliament attached to his ministry, the union minister for Finance, Mr C. Subramaniam, indicated this week that his budget this year would attempt at channeling scarce resources into "priority areas" and giving push to the economy in certain important directions. With the budget only a couple of weeks away, he obviously could not dwell at any length on the directions he wanted to give to the economy. He only added that certain imbalances that had crept

into the economy in the recent past would be corrected to the extent possible.

Mr Subramaniam conceded that recessionary tendencies were there in some sectors of the economy, but he expressed the view that the overall performance was not that bad as made out by certain circles. The heavy industries sector, particularly the heavy electrical equipment manufacturing industries, he pointed out, had shown a substantial improvement. The output of the other public sector industries too had registered a rise of about 12.5 per cent over the last two years. Steel output was also looking up. The overall industrial production as well had started picking up. He hoped that this improvement would be maintained next year.

The Finance minister revealed that a working group of his ministry was currently examining the question of legislation to enable the government to confiscate the properties of smugglers. This legislation would be brought before Parliament after a thorough legal examination so that it could stand all judicial scrutiny. Mr Subramaniam denied that there had been any slackening of the tempo of anti-

smuggling operations. These operations, he said, would be continued ruthlessly. He, however, admitted that some smugglers were probably regrouping themselves. He justified the resort to preventive detention of smugglers on the ground that there was not sufficient evidence to prove the guilt of the persons concerned.

The drawing up of the next year's budget, indeed, is going to be an arduous task, for despite the measures taken to contain the budgetary deficit within the original estimate of Rs 126 crores, the current year's revised estimates of receipts and expenditure are expected to show considerable imbalance. Indications are that the deficit may exceed Rs 500 crores. If developmental expenditure next year—the second year of the current five-year Plan—is to be kept up reasonably high, a substantial effort at mobilisation of resources will be necessary. It remains to be seen how the Finance minister would mobilise additional resources for development without giving push to prices. The expectations of a good rabi crop, of course, should stand him in good stead in drawing up the next year's budget, for it will be having a salutary effect on the priceline.

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**THE NEED OF EVERY COMPANY**

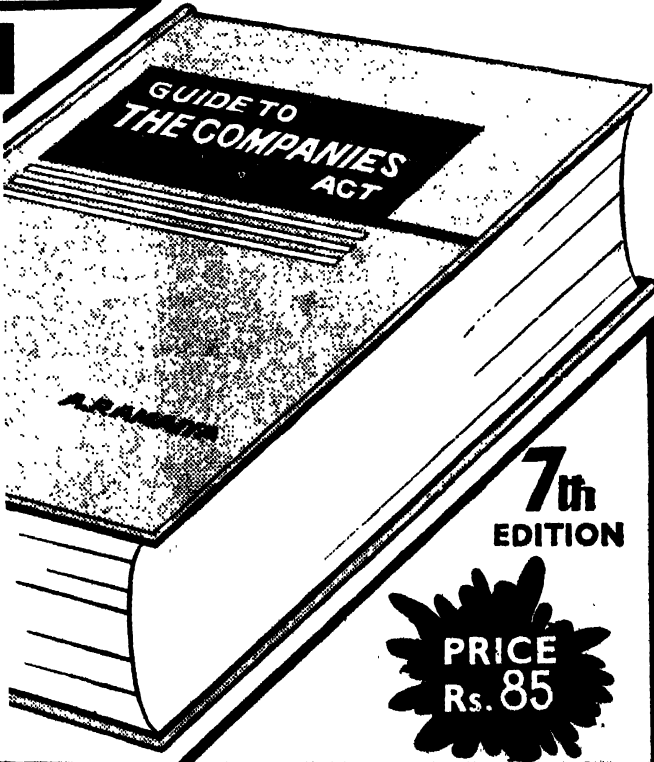
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## Facts and illusions

S. Bhoothalingam

I HAVE often wondered why these addresses are called keynote addresses. Being prone to seek accuracy, I have thought that the keynote address seeks to bring out one or two points, strictly speaking only one, around which discussions could be concentrated.

In that sense, I have sought to identify the key and, if I have understood right, the suggestion made is that excessive growth in conditions of inflation have shifted the terms of trade very much in favour of the industrialised countries, and that what we have seen recently is a necessary corrective process. Stated in this way, there can be very little cause for disagreement. But, when a disease has been diagnosed and its nature determined, then we proceed to take the remedies. There are all kinds of remedies — gentle ones which may or may not be effective but not too unpleasant, and pretty violent ones; and sometimes the violent ones like using the methods of operation may even cost a surgical shock.

### historical process

Now, if you look at the historical process, you can easily admit that the corrective process has begun in a particular way, that is, through an increase in the price of oil, which is one of the most important primary materials in the world, primary scarce material, and on present knowledge with inexhaustible resources. This process, however, as it can be seen, cannot be confined to oil. The same logic would require a readjustment of prices, which has been set in train by this shock action. Appropriate weight has to be given to this and, if you do not give it, they will give themselves, not only to oil but to many other similar materials, though in terms of magnitude they may not be anything like oil.

Therefore, the major problem here today is a further readjustment of prices, of relative prices. The readjustment of relative prices in the economic systems of the world, organised as they are today, means massive transfer of resources, and the problems are accentuated because in this process of matching transfer, the facts are mixed with illusions. I mean there is a great deal of what we Indians call MAYA thrown over the whole industry.

The Second International Seminar of Economic Journalists was held in the capital from January 22 to January 28. We reproduced the views of some of the participants in our issues dated January 31 and February 7. This is the last instalment in the series.

This may sound a bit mysterious and I shall try to illustrate that.

What is happening today or would always happen as a result of adjustments is not merely actual transfer of resources. Very much more than that is the transfer of the power to make future transfers of resources. In other words, take a simple present case itself. What has massively accrued to the oil producing countries in a remarkably short period is an enormous amount of purchasing power. This purchasing power represents claims against the rest of the world, claims which are not meant to be enforced right away, and which cannot just be enforced.

In simple language, the importing capacity of the producers is fast accumulating the vast resources in the shortest period, within a very limited period. I am not alleging that they should not accumulate these rights. But the rights accumulated, I stress, cannot be exercised now and these rights to remain rights or the value of these rights not to be eroded in future depends very much on a continuance of a suitable world system. The future transfer of resources under these claims can materialise only with consent. The history of the world has shown in the past, in the recent part and may be in the future, that all claims are not always honoured in the same way. Of course, there have been very few instances in history where these claims have been totally eroded. But there are hundreds of ways in which the exercise of these claims has been limited, postponed, regulated.

In the trend of these important happenings, the problem to face is how the exercise of these claims can be ordered in such a way that the future transfer of resources becomes beneficial to the world as a whole,

and in particular to those who have accumulated those resources and will continue to do so.

Here, talking for, in particular, developed countries, I would suggest, not cynically but seriously, that taking the world, as it is, it would be a matter of prudence and common sense on the part of all oil exporting countries to spread their claims wide so that the chances of their being eroded by various kinds of nationalist actions are diminished. I am sure that the OPEC which have shown so far not only toughness but also considerable amount of farsight and sophistication in the management of their affairs will appreciate this point very much.

### understandable reactions

That this should have caused many reactions and many unpleasant reactions in other countries is understandable. That oil prices have contributed only in a small measure to the inflation in the industrial countries has been emphasised by Mr Ahmed Kouross, deputy minister, Economy, government of Iran — I would submit that alone is not perhaps a full measure. Inflation has been there and there is no sign of inflation abating yet. But the earlier point you (Mr Ahmed Kouross) made in my view is far more appropriate, which is, the basic cause has been the attempt deliberately or semi-unconsciously of the industrial countries to grow and to sustain a high standard of living, which cannot be maintained with the production they have or they can have.

Now, there is no doubt whatever that today many western countries are faced directly or indirectly with some reduction in their standard of living. In a few countries in Europe, it is already evident. Now, the transfer of resources, and adjustment towards the new world order are all concepts and phrases and they cannot get over the fact that the standard of life in those highly developed countries is threatened. Not that we in the rest of the world are inclined to shed too many tears over it; that is a different matter. To us the greater concern is that even in this age the standard of life in the greater part of the world has not risen. One of the unfortunate, fortuitous or not is too early to say, effects of vast changes

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which have been taking place is that this process of readjustment hurts developing countries even more than the developed countries. This need not necessarily be so. How to bring about changes in industrial relations, which would enable the developing countries not to be sacrificed in the battle between the old rich and the new rich is a problem really which dominates most of the world.

Here again, a certain new phenomenon, I would not say new phenomenon,

certain things which have been there but which have not been quite seen and appreciated is this: we lump all industrialised countries together and we lump all developing countries together. But there are all kinds of differences in both the groups. For instance, in our own country, in India, if you take the per capita income and such like economic measurement, we are probably among the lowest, practically near the bottom. On the other hand, in the organisation of our society, in our mental outlook and all that, including our human

infrastructure, I would say we have many of the characteristics of developed countries. Therefore, we can have a sort of four-way classification — developed as well as rich, rich but not necessarily very much developed, developed and poor, and poor and undeveloped, and there are many many combinations. To find ways of establishing a new international order which is by and large, in positive terms, in the interest of development, is going to be a major problem, which we have to face.

# ADB and rural development

Dr Perry Chang

HERE I would like to say just a few words about the economic conditions in the developing member countries of the Asian Development Bank (ADB) as a whole and also to take this opportunity to report to you briefly the Bank's operations during 1974. As we all know, during the past year, the developing member countries of the Bank were generally affected by the unfavourable developments in the world economy. Most countries experienced a substantially lower rate of growth as compared with that in the previous years. Moreover, development efforts were generally weakened by mounting inflation and increasing balance of payments difficulties. The world-wide shortages of food and fertilizers and, also serious crop failures in several countries aggravated the situation. These developments have brought unprecedented pressures on the resources of most of the developing member countries and have made their task of improving the economic and social conditions of the majority of the people more difficult.

## satisfactory growth

During the 1960's and early 1970's, the real growth in Gross National Product (GNP), of developing member countries was generally satisfactory and in several countries, the annual targets of five and six per cent suggested by the United Nations for the first and second Development Decade respectively were met. In some developing member countries, the growth rate was among the highest in the developing world. However, this trend was reversed in 1974. Preliminary estimates indicate that the growth in the GNP in 1974 for most of the developing countries was below half that achieved in

1972. Also, there were indications that in several developing member countries, the growth rate was negligible or negative.

The reversal in the growth trend in the region was closely related to the world-wide contraction in economic activities. The Organization of Economic Co-operation and Development (OECD) has estimated that the average rate of growth of seven major industrial countries is expected to be 0.5 per cent in 1974 as compared with 6.5 per cent in 1973 and 5.8 per cent in 1972. The total foreign trade of the OECD countries, which are major markets for the developing countries in the region, is estimated to have increased at a slower rate in 1974 than in 1973, even at higher prices for both exports and imports.

## upswing in prices

The slowdown in economic activities in the industrially advanced countries appears to have contributed significantly to the unsatisfactory performance of the region's economy. The upswing in prices of primary commodities which started in 1972 had reached peak levels in about the middle of 1974. Except for a few commodities such as sugar, palm oil and jute, which are still in short supply, the prices of other primary commodities are on the decline. Considering that these commodities constitute a major portion of the exports of many developing member countries, the downturn in prices has resulted in the decline of economic growth in these countries.

The slowdown of the world economy has also reduced the demand for manufac-

tured exports from the region. Even though industrial production still comprised a relatively small portion of the total output of the developing member countries as a whole, the share of manufactured products in the total exports of many countries has been generally increasing since the early 1960s. In recent years, it reached between 40 to nearly 100 per cent in seven developing member countries. With the general decrease in the demand for such exports, the economic slowdown was transmitted to many developing member countries, especially those which have depended mainly on export oriented industrial development for economic growth.

## food production affected

In several developing member countries, besides shortages and high prices of fuel and fertilizers, food production was also affected by natural disasters. Although there was a moderate increase in rice output in some developing member countries, some of the most densely populated and traditional rice-exporting countries experienced reductions in the production of rice and wheat. Considering that agricultural production is an important part of the national product of these countries, crop failures also contributed to the slowdown in the region's economy.

While the above factors affected the economic growth of most developing member countries, the situation was aggravated by mounting inflation and by high prices of fuel. These developments have prompted virtually all developing member countries to adopt stringent anti-inflationary policies and fuel conservation mea-

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asures. Although such policies and measures had varying success, they also generally resulted in the reduction of both public and private investment in real terms.

The decline in the economy of developing member countries was accompanied by inflation throughout the year. Preliminary estimates suggest that the consumer price index in most developing member countries rose by 5 to 40 per cent, compared with an estimated average of 14 per cent in the major industrial countries. This increase was also considerably higher than that in 1973, which generally ranged between 10 and 30 per cent.

As a result of these unfavourable developments, most developing member countries faced an unprecedented increase in their trade deficit, which aggravated their balance of payments difficulties. It is estimated that the total trade deficit of the developing member countries of the Bank amounted to about US \$10 billion in 1974, which was five billion dollars higher than the preceding year.

### inflow of capital

Historically, the trade deficits of the developing member countries have been offset largely by the inflow of long-term capital and transfers from the developed countries, which amounted to about US \$4 billion in recent years. With the developed countries generally facing serious economic problems of their own, it is unlikely that this amount could have been increased substantially. Although some new facilities, such as the IMF oil facility and the UN Special Operations were created to help mitigate these difficulties, and some oil exporting countries have begun to show interest in the region, many developing member countries had to resort to borrowing at very high interest rates on rather short term. According to recent UN classification, six of the developing member countries of the Bank have been classified as the most seriously affected countries. In fact, many other countries are facing a similar situation.

The outstanding public external debt of the developing member countries as a whole had already reached about US \$35 billion by the end of 1973, which was US \$2.5 billion higher than in the preceding year. Correspondingly, the debt service payments increased from about US \$1.8 billion to about US \$2.2 billion. Considering the greater need to borrow as a result of increased trade deficits, not

only are debt service payments expected to increase at higher rates in the affected developing member countries as a whole, but creditworthiness may well become a problem in some of the most seriously affected countries.

While the Bank recognizes the gravity of the situation and would be willing to support, as far as practicable, international efforts to mobilize such funds, it does not have the resources, nor the mandate, to provide balance of payments support which the world economic situation calls for. However, in response to development in the international economy and the impact of these on its developing member countries, the Bank instituted important changes in its operating policies during 1974.

### standardised terms

The terms of Bank loans from its Social Funds resources were standardized and further softened during the year. The financing of local currency expenditure with foreign exchange resources has been initiated. In addition, financing of interest and other charges during the period of construction of a project under ordinary loans has been liberalized. However, due to the increasing cost of borrowing, the Bank's lending rate from its ordinary resources was increased from 7.5 per cent to 8.25 per cent on September 3, 1974.

In order to meet its developing members' growing needs for external resources, the Bank has continued to seek to enlarge its financial base. During 1974, the Asian Development Fund came into effect when US \$236.92 million were pledged to the Fund by ten developed member countries. This represents a portion of the total of US \$525 million, which is required to finance the Bank's concessional lending operations up to December 1975.

The Bank has been exploring the possibility of borrowing from oil-producing countries. A bond issue was made in Kuwait in April 1974 for five million Kuwait dinars (about US \$16.9 million) at 7.5 per cent. Continuous efforts are being made to borrow from these countries in their national currencies as well as in international currencies. Apart from this approach to new sources, the first borrowing from the Export-Import Bank of Japan was also made in April 1974 for 7.5 billion yen (about US \$25.2 million) at 7.25 per cent per annum. The Bank will continue to explore the

possibilities of borrowing at reasonable rates from all sources.

The Bank's lending has been increasing steadily. In 1974, loan approvals totalled about US \$547.6 million as compared with US \$421.4 million in 1973 — an increase of about 30 per cent. Although part of the increase may be attributed to price inflation, the growth in Bank lending is real. At the end of 1974 cumulative Bank lending totalled about US \$1.9 billion.

The share of Bank loans extended to the agriculture and irrigation sectors was 24.5 per cent of the total as compared with 11.2 per cent in 1973 and 13.2 per cent during 1968-1972. In addition, about 22 per cent in value of the Bank's technical assistance during the year was given to these sectors and is likely to lead to more projects to be financed by the Bank in the future. In the meantime, Bank lending to the industrial sector (not including loan to national development banks) has increased greatly during the year; its share was about 19 per cent of the total, compared with less than 10 per cent in the preceding years. The main reason for this increase is that as a part of its response to the changing economic conditions, the Bank has undertaken financing for the development of local energy resources, such as natural gas, for industrial use.

### infrastructure loans

With the lending to agricultural and industrial sectors on the increase, the share of Bank's lendings for infrastructural development declined during the year; 14.9 per cent for transport and communication and 14 per cent for power as compared with 29 per cent and 22 per cent respectively in 1973. However, the amount of loans extended to these sectors was still very substantial, and due to the basic need for such facilities, it is likely that the Bank's lending to these sectors will remain at a high level in the years to come. In this connection, it may be noted that the Bank has paid, and will continue to pay, special attention to the development of hydro-power. In 1974, practically all of its lending to the power sector was related to hydro-power development rather than the thermal generating plants of previous years.

While the Bank's operations during 1974 reflect, to a certain extent, the changing economic conditions of the time, no efforts have been spared to improve upon the long-run impact of its various activities. In this regard, it is of particular interest to note that the Bank has put much

more emphasis on integrated rural development which aims not only at increasing productivity of the rural populace, but also at providing education facilities, health, housing, and a more equitable pattern of income distribution.

In addition, the Bank has made efforts to ensure that its operations will contribute, as much as practicable, to the well-being of the great majority of people. For instance, the Bank has been more than willing to incorporate any land reform features in an agricultural project provided it is agreed upon by the government concerned. It has also encouraged the provision of water, power and other

amenities to the lower income groups at reduced rates, or even free of charge, provided that the basic design of the facilities meets with the minimum standard in the Asian context. All these are reflected, when appropriate, in the formulation of Bank-assisted projects.

The Bank has also endeavoured to extend its activities to what is generally regarded a "social sectors". In this regard, a moderate beginning has been made in the education sector, with special emphasis on vocational education. Even though the scope of Bank's operations in this sector is still limited, a number of preparatory technical assistance projects initiated dur-

ing the year are likely to lead to more activities in the future. In addition, the possibilities for the Bank to enter into other fields, such as health, population control, housing and urban development, are under careful study.

The uncertainties in the international economic scene have compounded the difficulties faced by the developing countries and threaten to frustrate development efforts. In the context of its available resources, and through closer international cooperation, the Bank is committed to playing its part in helping its developing member-countries overcome these difficulties.

## Resources for development

Dr Roger Polgar

I AM very pleased to have the opportunity of making a few remarks on the subject of resources for development. This is, of course, a subject that has long occupied those of us concerned with economic growth. However, I would like to state clearly that these remarks will be made not in my capacity as Resident Representative of the United Nations Development Programme, but as Roger Polgar, even if I have benefitted myself through my professional experience of years of service with the UN system. I would also apologise if my lecture is not at the expected level. I did not have enough time to prepare properly to speak to such a distinguished gathering. Also I may repeat things which have been said before by the previous speakers as I was not able to attend the preceding discussions.

Now that these matters are out of the way, let us turn to the problem of development. There are fashions in development as in everything else and in the days before population, unemployment and appropriate technology became the panaceas for the skills of mankind, savings, investment, foreign exchange and other resource constraints were the stock in trade of development economists. Development, for all practical purposes, was resources and not much else.

In recent years, the problems of the

tax base, of resource mobilisation and resource exploitation have taken second place to the glossier subjects. But now resource constraints have made a comeback. On the one hand the Club of Rome and the UN Environment Conference have reminded us that physical resources are finite and that one day, apparently sooner rather than later, we will run out of raw materials. To give you a scientific estimate, the following are the reserves of some minerals which will be depleted in two or three decades at today's rate of consumption unless science and technology make new breakthrough :

|           |          |
|-----------|----------|
| Zinc      | 20 years |
| Lead      | 25 years |
| Tin       | 30 years |
| Petroleum | 30 years |
| Copper    | 35 years |
| Uranium   | 35 years |

We should take into account that consumption increases not only because the population of the world increases, but also because due to economic growth individual consumption increases.

It is well known that the United States of America having about 6 per cent of the world population consumes 30 per cent of world's total energy. It should be obvious that it is impossible to expect

that every single person in the world could have the same standard of living as the present standard of living of American citizen. The resources that are at our disposal are just not enough. It is about the same in all compartments of what is considered as necessary by American individuals for their present standard of living.

On the one hand the developing countries are demanding a larger share of the world resources on the ground of justice, on the other hand, the resources at our disposal are not enough to give to everybody the expected standard of living at least at the western civilisation level and I am afraid that the western civilizations are not prepared to accept a decrease on what they are now accustomed to. In fact, what is at stake is the quality of life and through that the type of civilisation we have to aim at in the future.

The so-called oil crisis has shaken the western civilisation, but unfortunately not enough for the governments concerned to run the political risk of informing clearly their own population about the possible collapse of the type of civilisation they are accustomed to. It is not enough to speak about other sources of energy not only because it will take time to develop a replacement source to compensate



for the lack of oil, but also because oil is a very easy source of energy to use. You can imagine a car using petrol but a car using electricity is much more cumbersome and cannot run very far. Furthermore scientists have already warned that a large increase of energy consumption may pose severe threats to the world. We have to think about the heat dissipation which may transform our type of climate. Life has rather narrow limits of range.

Also there are the various problems of pollution — chemical and other types. An increase in the atmosphere of dust content may also change the climate and I would like to remind you of the recent discussion about the use of aerosols in the USA with the fear that the ozone layer which protects us from ultra-violet rays from the sun may be dissolved. So while

many people are concerned with the day to day problems of survival because they have not enough to eat or because they are sick, I personally feel that we have to take also the long run problems into consideration. What we do now may have disastrous consequences in the years to come. Fortunately, we are better equipped to foresee the consequences of our act. Nevertheless we will have to face one day or the other the problem of changing our civilization. For instance, scientists in the USA are studying the consequences of increasing the superfluous used for agricultural purposes in their own country. The new areas developed for agricultural purposes are marginal soils, but the crops they produce are necessary to feed the world and the techniques used for those lands are the same ones as for the other lands with the result that in a few years

they are exhausted and the land becomes a desert. We have seen a similar problem in the Sahel belt.

However, the present situation of the world divided into "haves" and "have nots" cannot continue for long. Therefore, we will have to reach either a dangerous crisis between the "haves" and the "have nots" or, in it is my personal hope, a common agreement for sharing the limited resources of the world. Probably both sides will have to make accommodation to their population and their needs. Probably the "have nots" may have to reduce their population growth and the "haves" will have to reduce their standard of living. In both cases it will not be easy, but it is probably the only way we can foresee a continuation of humanity on earth with the technology at hand.

Dr Bharat Ram

## Opportunities for developing countries

I WOULD limit myself to some specific issues arising from the large accumulation of resources in the hands of the oil exporting countries amounting to nearly \$60 billion a year, \$40 billion from developed and \$20 billion from developing countries. This redistribution of world resources has naturally caused considerable imbalance. In the developed countries a recessionary process is under way and it is not surprising that many of them have started grumbling, complaining, accusing and even threatening. I suggest that one should look at the issue in a world perspective rather than from any group interests.

The immediate problem created by the hike in oil prices is the sudden imbalance in external payments position of a number of countries. This problem has received world attention and efforts are being made to meet it at least partly.

The International Monetary Fund has set up an 'oil facility' to assist members in meeting the initial impact of the high oil cost. Various major oil exporters including Abu Dhabi, Iran, Kuwait, Libyan Arab Republic, Oman, Saudi Arabia and Venezuela, have extended cooperation in

the financing of this facility which started with an initial fund of about SDR 3 billion. Recent reports from Washington indicate that the oil facility in 1975 will be raised to SDR 5 billion. This is, no doubt, good as far as it goes, but you will all agree that this does not really go far enough. The basic imbalance which has been created as a result of the price hike and the diversion of resources has to be corrected in a more significant way so that international harmony is not jeopardized.

Before I express any view about what has usually been described as re-cycling of petro-funds, I would like to emphasize that these funds are not really in the possession of the oil exporting countries. A petrodollar or a petro-pound is just as much a book-keeping entry as a Euro-dollar is. All that happens is that the dollar or the sterling funds are transferred from one account to another in commercial banks in USA, Britain and other European countries. There is only a change in ownership of bank deposits and not a depletion of deposits as is sometimes the impression. The funds are not taken out of the oil importing countries of America or Europe. The funds are very much there.

In fact, this very situation creates anxiety

both for the oil importing countries which are holding the petro-dollars or the petro-pounds and for the oil exporting countries which do not have these funds in their possession. Saudi Arabia has invested \$13 billion in the United States. The state of Kuwait has supported the price of sterling by allowing £3 billion to remain denominated in sterling. Switzerland has had an inflow of \$7 billion from petro-funds. Undoubtedly, the sums are large and any major operation can cause vast economic and currency problems.

The fear on the part of the oil importing developed countries is that such transfer may take place any time and put their currencies under great strain. You may recall that about two or three months back a mere rumour that the oil exporting countries were switching their funds from UK to other European countries caused the value of the pound to fall in a very dramatic manner. When such a rumour becomes a fact, you can well imagine how seriously the currency values will be upset. The oil exporting countries may also be under the fear that any large transfer of petro-funds may evoke unsympathetic response from the developed oil importing countries which are now in



possession of the petro-funds. They may hesitate; they may regulate the rate of outflow or they may put hurdles in the way of transfer. The Arabs may be put completely at the mercy of the oil importing developed countries who are in physical possession of the fund.

These fears on either side may be real or exaggerated. But the fact is that vast amounts of money are under the ownership of the oil exporting countries who are not in a position to use them for their indigenous development. The scope for immediate large scale industrial investment in most of the oil exporting countries of the middle east is not unlimited in view of the non-development of other sectors of the economy and the extreme paucity of men and materials. Even when all the investments that can be thought of are made in the oil exporting countries, there will still be a massive amount that could and must be put to use. Sheikh Yamani has described this in the following words:

"The real solution to surplus funds lies in properly channelling them out into world investment opportunity on a long-term basis, spread over as many areas as possible."

## the correct choice

Obviously, the choice that is available is whether the funds should be invested in major industrialised countries as they are indeed today or whether they should be used differently. The latter would imply diversion of these funds for rapid progress of the less developed countries. I think it stands to reason that the second choice is preferable from many angles. It will reduce imbalances in the world economic system and bring the developed and developing countries closer together. Even from the point of world growth, investment in less developed countries would be more productive because the opportunities for productive use of capital are far immense. Also from the point of the oil exporting countries diversion of funds to developing countries could mean a higher rate of return and greater commitment of funds in capital assets. I have, therefore, no doubt at all in my mind that a vast and quick upsurge in the economies of developing countries could be brought about without in any way affecting the interest of the oil exporting countries if closer economic relations are built between developing countries and the oil exporting countries which were, until recently, developing countries themselves.

Proceeding on this basis, a point which

has to be considered is how this re-direction of petro-funds can be achieved. That is to say, what type of institutional arrangements will have to be made to ensure that the funds are secure and are used productively by the developing countries. Three possibilities can be mentioned: First there can be a direct government to government loan from oil exporting countries to developing countries. Second, the oil exporting countries can make separate institutional arrangements of their own for transferring resources from the industrialised countries and channeling them to the developing countries. Third, the oil exporting countries can make use of the existing institutional facilities such as the World Bank, IMF and the IDA to funnel these sources to the developing countries. Each of these arrangement had its own merits and demerits.

## non-economic considerations

Official loans are often influenced by non-economic considerations and, therefore, do not always ensure a proper lender-borrower relationship. It may be possible for the oil exporting countries to devise a new institution which can be run on the lines of a development bank. But this arrangement will, however, take some time before it fructifies and starts giving results. The best alternative, therefore, is to put the resources at the disposal of the World Bank and its associates for being passed on to the developing countries to support their development programme. Being international in character the security of the funds is assured. Having the expertise, these institutions can ensure allocation of resources for productive use. The same factor will guarantee repayment of loans in time and according to schedule.

While it is desirable that the petro-funds are used by developing countries to finance their development programmes it would also be worthwhile to give some thought as to the areas where these funds can be most productively invested. I would say that in India the scope for investment is immense and would cover both, public sector programmes in the field of electricity generation, transport, heavy machinery etc. and private sector industries such as engineering, cement, paper, steel, petrochemicals, electronics and so on. These industries can be developed as joint ventures between Indian businessmen and their counterparts in the west Asian countries. The joint ventures can be based on partial or complete capital participation

by the oil exporting countries and technical and management know-how from India which has been fairly well developed in the past 25 years. Probably some of you may not know that we have already started investing abroad and about 167 projects have either been completed or are under implementation in 19 countries including the UK, Germany and Canada. You will, therefore, appreciate that India has the capacity and scope to utilise the petro-funds on a large scale.

I am no doubt aware that the inflow of petro-funds on a large scale would not be feasible or the funds would not be most productively utilised if our policy frame is not suitably changed. I believe that there will have to be far greater degree of flexibility with regard to the form of organisation. India has considerable experience of foreign investment. But the type of association that the oil exporting countries, which will mostly be from west Asia, will like to have will be different. The foreign investment so far had come from developed industrialised countries and was sought mainly for the sake of technical know-how. But the association of the middle east countries will be primarily for utilisation of financial resources in a manner that would be of mutual advantage.

## policy constraint

To promote such type of foreign participation the policy constraint imposed by the Indian government will have to be modified in a very substantial way. I hope there will be no psychological or economic obstacles to this desired change because the countries of the middle-east not only belonged, until recently, to the developing world but also because they are far different from the metropolitan powers. The foreign investment policy was consciously or unconsciously fashioned to prevent intrusion of the erstwhile imperial nations in the economic affairs of developing countries. That barrier does not exist in the case of the oil rich countries. India has very friendly relations with most of the oil exporting countries and closer commercial cooperation between them can be very easily forged.

The United Nations had adopted a Resolution at the beginning of this decade to the effect that the developed countries will transfer resources to the extent of one per cent of their GNP. This target was never reached. In 1973 the total flow of resources from DAC countries was \$ 22.8 billion about 0.73 per cent of their GNP. It

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will be tragic if this flow is slowed down on the ground that the developed countries are up against problems following the energy crisis. All the same it will not be unreasonable to hope that the oil pricing policy of the oil exporting countries has opened up overnight vastly larger opportunities for the developing countries. The

surpluses accumulating with the oil exporting countries are of a high order, about \$ 60 billion a year. Here is a potential to add to the pool and bring about a radical improvement in the conditions of the world which is today characterised by deep economic differences between countries. It is my sincere belief that the oil

exporting countries will work out arrangements which will promote harmony among nations and peace in the international community. The partnership between developing countries and the oil exporting countries is already beginning to take shape, and I hope it will be placed on a permanent and on-going basis.

# The scenario for triangular arrangements

J. van der Meulen

I THINK we are all agreed that the present crisis the world is facing is deeper and graver than any since World War II. It has brought together in an unprecedented coincidence the problems of lagging food production combined with unequal distribution; sharp imbalances in trade; a decline in real terms in development assistance, uncontrolled inflation and monetary instability and important changes in the relative economic position of some nations resulting in changes in international relations. The shortfalls in food production in 1972 and again in 1974 and the shortages and high prices of fuel, fertilizers and pesticides have inflated the import bill of the developing countries. Moreover, domestic as well as internationally transmitted inflation has added a heavy burden to this bill, particularly now that terms of trade are again turning against primary products. The immediate results of these events have been grave. Malnutrition and starvation in the low income groups is spreading and becoming a more extensive problem with long term implications on future human productivity. The increasing disparity in incomes and living standards between nations and within each nation itself must lead to conflicts and moral degradation.

## adjusting to price hike

At the same time, while international cooperation is more than ever required to achieve economic and social development, the developed nations in their attempt to manage their payment situation, economize on development assistance. The poorer developing countries attempt to adjust to soaring prices of essential imports by curbing development investments, while arrangements for the systematic transfer of

resources from the newly rich developing countries are still to be worked out.

On balance, the resources left for development do not appear adequate even to maintain the agricultural growth rates of the recent past which by themselves were not sufficient to provide an adequate diet for all citizens of this world. Therefore, the most urgent problem relates to the management of the immediate crisis, particularly as concerns food and the key inputs required for increasing agricultural production, that is, fertilizers, pesticides and energy. This must be the first concern in any global management strategy if developing countries are not to end this decade in a much poorer position than they were a century ago.

## widespread malnutrition

Indeed, amongst us we have now more than 450 million people who are severely clinically malnourished, and probably about half the world population is affected by some degree of malnutrition. Therefore, whenever I have been accused of talking about doomsday, I have replied that for those millions who are starving, doomsday is today, here and now, even if emotionally or politically we are unable or unwilling to accept that fact.

To make any impact on these immediate problems will require new approaches to international cooperation, for shortages of food and fertilizers are affecting both developed and developing countries and thus require for their management sharing of inadequate supplies as well as arrangements for financing of required imports. The need for global consultations is urgent if supplies are to be adequately earmarked for the needy countries, since the present

market mechanism for distribution is unlikely to achieve this. However, even when this is done, there will still remain the problem of financing of the essential imports needed by the developing countries. For example, FAO estimates that the uncovered cereal import needs of the most seriously affected countries in 1974-75 amount to at least six million tons, costing around \$105 billion, including freight charges. International development strategy, as worked out in the past, has not included policies and actions for meeting such short-term emergencies.

## special programme

Indeed, the special programme launched by the United Nations General Assembly for emergency assistance to the most seriously affected countries is, perhaps, the first concerted effort in this direction apart from relief efforts for specific emergencies and disasters. However, even this United Nations Emergency Operation has suffered from inadequate support, both on the bilateral and multilateral sides. The Secretary-General of the United Nations has again urged governments of traditional and new potential donor countries to contribute resources to meet the payments gap of the most seriously affected countries in 1975, now estimated to be higher than the previous level of \$2.3 billion. FAO would like to add its voice to this appeal and to urge all countries which are in a position to do so to contribute liberally.

However, international cooperation has to go much further than emergency assistance to deal with the present crisis. The future of the developing countries requires considerable longer-term invest-

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ments on development projects and programmes. FAO estimates that the flow of resources from developed to developing countries would have to increase nearly four-fold within the next five years if agricultural production is not to lag behind expected population increases, at the same time making up some of the shortfalls experienced during the last few years.

These external assistance requirements are considerably greater than estimated or envisaged before the present crisis. And while the burden on the developed countries could and should be increased, new arrangements for international economic cooperation are needed, including greater participation by the newly rich developing countries. All this is bitter medicine and it will require strong political will power to swallow it. The alternatives, alas, are worse. There is, in the developed countries still the school which argues "I'm all right Jack" and which hopes that resources will be sufficient to keep their own small prosperous island going at a level to which they have become accustomed in the fifties and sixties. These are the Neo Malthusians who can say to the other half of humanity

that there is no room at the table for them.

One can sympathize more with the newly rich who, with their own population still suffering low standards of living, are now already called upon to become major contributors. Yet, there is no choice, for islands of prosperity are strictly temporary and will be swamped by the seas of poverty surrounding them. Finally, some of the strongest political efforts will have to come from the developing countries themselves, for, if they fail to demonstrate their capacity to absorb aid, this will be used as one of the main excuses to limit the flow of assistance. Increasing this absorptive capacity directly concerns domestic policies and structural changes in society. The highest priorities therefore, should be given by governments of developing economies to policies of redistribution of income and the full participation of all their citizens in the development of their society. Only if they can prove that they are making all possible efforts in their own economy will their words carry weight when they are arguing these policies on a global scale.

I would like to conclude by emphasizing the considerable scope that exists for increased cooperation between the oil exporting countries and the rest of the world, particularly in the form of triangular arrangements. In the last analysis, the enormously increased liquidity and wealth of the oil-exporting countries can only build security for the future if it leads to the maximum increase in production for which the developing countries appear to offer the largest promise. Dr Bharat Ram, has already referred to the return on investments in the developing countries. The developed countries, on their side, will have to play their established role in the transfer of resources, technology and know-how, in spite of the crisis of inflation, the slow-down of economic growth and rise of unemployment that they are facing. This is the scenario for triangular arrangements for increased international cooperation. Indeed, it is only through bold and imaginative arrangements for intensified cooperation that international economic relations can achieve the pattern that will serve the world in the fourth quarter of the twentieth century.

# Removing the debris

P. N. Haksar

IN THE realm of economics there is very little one can say which is new or startling except in a very negative sense. But it is often desirable in human affairs that if we wish to build anew we should remove the debris and this removal of debris itself might be a helpful contribution to designing some new structures.

The history of this little earth of ours since the end of World War II and the path which it has traversed so far is littered with dead and dying hopes and so we might as well remove them. Every war has been followed immediately thereafter by expressions of great sentiments, great feelings. War is always a trauma. We remember that World War I was followed by the expressions of the people that never again it should happen. But it happened. World War II was even more traumatic. That trauma was enhanced to a sharp edge to something new which emerged in the realm of technology of war, about which we are all familiar. There were great hopes of world cooperation. Institutions were founded. But, I am sure, even the financial writers do not write any more

unless they are experts in writing and composing epitaphs to Bretton Woods. That is dead and gone.

Great hopes were aroused. We talked about the inter-dependence of the emerging world. People talked about the tremendous explosion in science and technology which has brought the world closer together, knitting it together. We talked about world unity, its inter-dependence, and also tried to reinforce that sense of inter-dependence, although we divided the world into the developing and the developed, and in France they even talked about the *monde*. We have now four worlds. Be that as it may whether it is one world divided into four worlds, or we are going to divide the world further into models or regions, the inter-dependence is still there. In response to this awareness of inter-dependence, the concepts of aid were floated.

There were anxious debates in the United Nations about transference of technology and of capital resources from the affluent to the non-affluent. Earnest efforts were made to create institutions,

UNCTAD I and UNCTAD II. As a result of this collective effort and wisdom we find that the human affairs are in no better shape. We are all in the midst of searching in the realm of economics.

At one stage, it was thought that we have acquired insights into developmental processes, which have turned out to be illusory. Mathematics at one stage entered economics and the economists felt that at least they had something precise, measurable and quantifiable. But as I said the other day, the realm of economic thought and the reality which exists are not even tangential. Now, nobody talks about Phillips' curve or Openheim's law. Keynesians and new Keynesians are at loggerheads. We have no solutions to our problems. The confidence had been shaken even before the energy crisis, which looms large on our horizon.

There is extreme instability in the realm of monetary affairs—dollar crisis, sterling crisis and now of course a new situation, the emergence of petro-dollars. I recall a poem written long, long ago

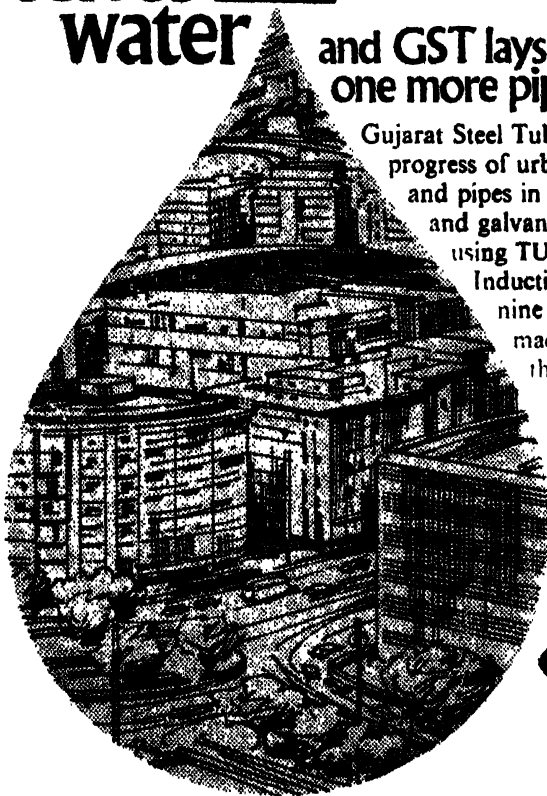
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apparently by a very prophetic poet, Louis Macnense who said something to the effect that the excess sugar in a diabetic culture rocks the nerve of life and literature. Here, probably we have sugar, which is a very nice thing, in terms of petro-dollars. This excess sugar must not be absorbed by the system, if it is not to produce diabetics in the system.

These are the kind of problems we are faced with. We realise in India, at any rate, as you might have seen, those who have come for the first time, here is an open country and an open society; it has always been so. India has been at the cross-roads of history. So we are accustomed to seeing, meeting, discussing and talking to people. Many have come here from all over the world and recorded in detail the life and living of our country. This country of mine, despite all the difficulties, is a country full of natural endowments. It is a country which, despite all that the people might have written and continue to write, nevertheless sticks along one way or another.

Some say that it is a marvel of organised chaos but it sticks along — 600

million we manage. Difficulties sometimes arise. We approach them empirically and sort them out. It is not only the natural endowments, vast and varied, it is perhaps the third largest collection of human talent in science and technology. It has developed over a period of a short space of less than a quarter of a century a base of industry, and has made significant attempts to solve some of its problems of an agrarian nature. We are open to ideas, to debates and discussions, I believe that India with its natural endowments, namely, what nature has given and what human skills can provide, is prepared to sit down with its friends either on a bilateral basis or if there are institutional arrangements through institutions to concretely work out how this inter-dependence can be meaningfully converted into plans and projects.

All that I would ask of our friends is to understand that it has to be conceived in long-term perspectives of felt needs. There is no room for gimmickry and that we must not act under mere impulse of the problems of re-cycling as it is called. We are glad that we are ready and we have shown our willingness to sit down. We have done so with our Iranian friends. We are doing so with our European friends to concretely demarcate areas in

science and technology and lower down to less dramatic aspects, the problem of food and agriculture—to sit down and work out trade and by what means we could meaningfully enter into economic, financial and industrial arrangements which satisfy or would satisfy the felt needs of both my country and your country.

We have no other choice left anymore, except at least in the developing part of the world where it is divided into further two sub-divisions — developing countries which are oil-rich and developing countries which are not oil rich and I personally do not accept the validity of that distinction. Nor any more I accept the validity of the argument that all our ills of the world today have a single factor, namely, the oil crisis. I do not accept it. I think if we wish to beguile ourselves, we are welcome to do so and indeed we have beguiled ourselves during the last 25 odd years with various kinds of emotions. But if we realistically look at this picture, I think there is enough scope to concretely work out measures for mutually beneficial cooperation and I as Deputy Chairman of the Planning Commission can give you an assurance that response from India will not be lacking.

# Developing countries in world trade

V. Krishnamurthy

POWER EQUIPMENT is comparatively more sophisticated amongst the engineering goods and calls for a higher degree of engineering and manufacturing expertise. Hardly 17 countries in the world would claim to have developed this expertise for design and manufacture of heavy electrical equipment needed for generation, transmission and utilisation of power. India is proud to be one amongst these 17 countries; in fact, currently, it has reached a status where it can claim a place in the first 10.

Till the mid-60's India was totally dependent on imports for power equipment. Generating plants such as turbines, alternators or boilers were not made in India. The electrical industry was producing a limited range of lighter equipment

for distribution and transformation of power. This included distribution transformers, power transformers, and circuit breakers upto 132 kv range and certain types of small motors.

The responsibility for the development of manufacture of heavy electrical equipment had to be taken by the governmental agencies in India as no private entrepreneur had the necessary resources to develop this highly sophisticated and capital intensive industry. The progress in the establishment of this industry and development of skills has been very rapid and in fact spectacular in the last ten years. From a position of total dependence on imports, India has become self-reliant.

Power development schemes during

the 15 years from 1950 to 1965 received little benefit from Indian industry in the form of power equipment. It was only after 1965 that Indian electrical industry played a significant role when the facilities set up by Bharat Heavy Electricals Limited, a governmental agency, started producing heavy electrical equipment. Between 1974 and 1979, over 85 per cent of the equipment required for power generation, transmission and distribution will be of Indian origin. Presently, India is able to meet all the project requirements from internal sources. Sizeable surplus has also been developed and is available in many areas for exports.

The progress on the qualitative side during the last 10-15 years has been remarkable. In the early 60's, the thermal

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power systems in India were designed particularly with unit sizes of 30MW, 60MW and 100 MW. With the growth of power systems in 70's, larger power units of 200 and 235MW were necessary. India has been able to develop skills for the manufacture of these large size units. In order to meet the future requirement, units sizes higher than 200MW—particularly 500MW units—are under development. The transmission voltage has also gone up from 132 to 220kv and then to 400kv. Here again, the Indian electrical industry has been able to meet the demand for transformers, switchgears and other equipment for extra high voltage transmission.

Within a short period, BHEL received orders and are constructing over 80 generating sets for thermal power station including 25 units of 200MW capacity each. For the hydro-power stations, BHEL are designing and constructing over 100 generating sets; the largest size being 165MW. BHEL are also serving the nuclear power industry in India and are supplying four power units of 250MW capacity each. This is an unparalleled record in the history of growth of electrical industry.

### industrial base

When the government of India set up Bharat Electricals for the development of electrical equipment in the country, there was hardly any industrial base from where design or manufacturing expertise could be drawn. A number of problems had to be faced in the setting up and operation of the plants at Bhopal, Hardwar, Hyderabad and Tiruchirappalli. Trained engineers and technicians and artisans were not available. In developing the engineering capability and manufacturing expertise in each of these lines of production, BHEL have had the benefit of collaboration with specialist organisations in the world. Thus, it works with the leading organisations in the United Kingdom, France, Italy, West Germany, Switzerland, Sweden, Czechoslovakia, Soviet Union and United States of America. The facilities at these manufacturing centres and the skills developed can stand comparison with the best anywhere in the world.

Many fresh engineers had to be inducted and sent to different design organisations and manufacturing works in Europe and the United States. Many have been trained for as long as 36 months. Training centres were also established in India even before these manufacturing plants went into operation. In the peak

period, training was given to nearly 4,000 artisans and 400 technicians simultaneously. Because of these efforts, BHEL is in a happy position to engage over 3,000 qualified engineers, over 4,000 technicians and 12,000 skilled artisans specially in the design, manufacture, assembly and commissioning of power equipment. It has been a great effort on the part of India and BHEL to reach the strong position of being the largest engineering industry employing over 50,000 men.

### engineering expertise

Besides the equipment needed for power generation, BHEL also makes a wide range of industrial equipment such as electrical drives, railway traction equipment, centrifugal compressors, pumps, transformers and switchgears upto 400kv class, rectifiers, capacitors, industrial and process boilers, electrostatic dust collectors, industrial ventilators, soot blowers, valves for steam, gas and oil, mines, etc. These are used in petrochemical and fertilizer plants, oil refineries, mining, sugar, steel, paper industry and railways. India has now reached a very strong position in the design and supply of these products. Here again the engineering capacity and manufacturing expertise were developed in India within the last ten years. Some of the equipment is manufactured only by a few organisations in the world. For example, the large steel mill drives, high pressure ammonia synthesis compressors and recovery boilers require a very high degree of engineering expertise possessed by very few countries.

Manufacture of components for nuclear power stations have also been successfully established recently. Manufacture of oil drilling rigs, both for on-shore and off-shore operations, has also been taken up as a part of this engineering complex. For each of these products, separate facilities have been set up to take care of product and process development.

In order to play a larger role in the energy development, this industry holds a good team of engineers and technicians trained in the total project engineering and construction of large power stations and also for providing specialist services for spare parts and special maintenance. I would like to re-emphasise that out of the so-called less developed countries in the world, India is the only country which can

claim the possession of expertise for the manufacture of such a wide range of power and allied equipment. This expertise not only extends to design and manufacture of the equipment but also in setting up power stations, commissioning and post-commissioning services. In 1974, BHEL supplied over 30 generating units totally to about 3,000MW for various power stations in the country. Till recently, the average annual addition was hardly one-third of this quantity.

During the fifth-five year Plan period extending to 1979, over 16,500MW of generating capacity will be added to the Indian power systems. Bulk of this would be supplied and serviced by Indian industry. In fact, the capability to produce power generating equipment is even greater than the projects taken up in India during this period. Most of the equipment would be supplied ahead of schedule and within three years out of the five-year period. This leaves a enormous scope for meeting the requirement of other countries needing similar equipment.

### ambitious plans

The oil producing countries and other developing nations in Asia and Africa have very ambitious plans for power development and industrialisation to raise the standard of living of the people in those countries. Electricity plays a very vital role in such attempts and in this field, India will soon be in a position to provide assistance. Having been similarly placed and passed through a difficult phase of development, India could well appreciate the aspirations and needs of such developing countries and would be willing to offer their services for consultancy and construction of power stations and more importantly the training of people from the developing countries for operation and maintenance of the power stations and industries. In this context, the recent work undertaken by BHEL in revamping the hydro-power station in Afghanistan would be a good example of cooperation between developing countries.

I could see distinctly three advantages in the cooperation between India and other developing countries in the far east, middle east as also in Africa. India is in a position to offer equipment of required quality for power generation, transmission and utilisation at a fair and competitive price. I may cite an example to prove this point. Till re-



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cently, the electricity board in Malaysia was dependent on Japan, the United Kingdom and continental manufacturers for equipping their power stations. For the first time, India offered steam generators for their 600MW power station, the largest in that country. The National Electricity Board of Malaysia were able to get the same equipment from India at substantially lower price than what they would have paid to their traditional suppliers. In fact BHEL was officially complemented by the Malaysian authorities for having helped them in keeping down the run-away cost. I am also happy to say that this job was completed to the full satisfaction of the National Electricity Board of Malaysia and supplies of BHEL were well ahead for the others from more advanced countries.

The second advantage is that India is able to provide equipment of the appropriate size needed for the developing and small countries in the middle-east and

far-east. Most of the manufacturers in advanced countries have gone for larger units—500MW, 800MW and 1,000MW. Many are no longer interested in the manufacture of smaller and medium size sets which are most appropriate for the developing countries. Even if the manufacturers in such advanced countries are in a position to meet the initial needs, there is a danger because of their inability to service their equipment over a period of time when they would have gone away from the manufacture of these small and medium range equipment. Here I see a distinct advantage in associating the Indian industry with the needs of the other developing countries.

The third advantage in dealing with India would be the provision of trained technical personnel for meeting the initial requirements of developing countries and at the same time providing training facilities for the engineers and technicians of these countries. This is very

important for the effective use of the new assets that are being created by the oil producing countries at a much faster pace. Here again, I would recall a fine example of collaboration between the National Electricity Board of Malaysia and BHEL where the engineers of Malaysia were trained in the designing, operation and maintenance of boilers.

Different possibilities have been put forward by eminent men for the institutional arrangement that could be made to ensure that large funds available with the more advanced countries as well as oil producing countries can be used in the most beneficial manner to the mutual advantage of the world community. After examining these suggestions a suitable formula acceptable to the people of all countries should be proposed with a view to promoting better relationship and balanced development and reducing the gap between the richer countries and those who are not so affluent today or are gravely affected by the recent economic crisis.

# Long-term linkage in fertilizer industry

K. C. Sharma

FERTILIZER INDEED is a key material which can present the type of problems which we have been discussing here. I am the head of one of the premier fertilizer manufacturing concerns in India having a very large design and engineering organisation. We are in a position today to design and engineer not only large fertilizer plants but a number of chemical plants also.

The Fertilizer Corporation of India (FCI) and the fertilizer industry in general has contributed to a great extent in the development of the machine-building industry such as Bharat Heavy Electricals which has manufactured the heavy compressors required for the fertilizer industry. Similarly both in the public sector and the private sector machine-building capacity has been built up. Under the Fertilizer Corporation today there are 13 different projects at various stages of construction and commissioning. Apart from that there are a number of other fertilizer manufacturing projects, under construction in the country.

In spite of all these major efforts, India

is still short of fertilizer for many years to come. Not only India but the whole of the developing world will continue to suffer from a shortage of fertilizers. Since the developing countries primarily depend on agriculture as a source of development and since their population is increasing at a fast rate, they will have to increase their agricultural output more and more in order to feed the increasing population. Until agriculture is developed to the maximum extent in the developing countries there is the danger of instability. In this context, India can play a very important and leading role in the development and production of fertilizers for the needs of the developing region.

The fertilizer industry has followed a cyclic phenomenon for the last several years. In the early sixties there was a cycle where there was tremendous growth and investment in the fertilizer industry. Then there was an era of over-capacity. The prices have been fluctuating from time to time. The result has been that the developing countries have been depending for their major requirement of

fertilizers on the surplus of the developed countries. Even though the developed countries exported hardly seven to 10 per cent of their production, its non-availability in scarcity conditions has determined the price with the result that the developing countries have been almost exclusively at the mercy of the developed countries for the supply and use of fertilizers.

I will briefly indicate the type of cycle the fertilizer industry had followed. The world fertilizer market was relatively stable during the 1960-65 period. In the first half of the last decade, there was an expansionary phase, characterized by a strong investment cycle. There were a number of reasons which favoured this considerable investment at that time. Among these were: (1) drought causing food shortages in certain areas of the world, stimulating food exports by producing areas which led to the expectation that there would be a rapid growth in fertilizer consumption in the developing nations, particularly in the heavily populated countries of Asia; (2) tremendous advances made in

technology towards large-scale single stream plants, cutting down costs on investment and production; there were also remarkable developments in specialised transportation and storage facilities, also resulting in lower cost per unit of output; and (3) favourable climate for financial aid to finance fertilizer sale on aid or credit terms.

But, in the latter half of the last decade, the downward trend had commenced. Nature played its part with favourable weather conditions and the growth rate of fertilizer consumption came down. In the developed countries fertilizer consumption growth rate dropped to seven per cent per year as against 10 per cent in the earlier years. In the developing countries, though fertilizer consumption grew at a more rapid rate, the massive increases in consumption did not materialise. In the meanwhile, the availability rose considerably on account of the coming on stream of the new capacity installed in the earlier years and, further, from the availability of large quantities of ammonium sulphate as a by-product in the manufacture of synthetics, particularly caprolactum. The result was an over-supply of fertilizers with low prices, distress selling and poor return on investment. The prices which prevailed in the expansionary phase and the downward phase in the last decade reveal the situation. In 1965, urea export prices were between 90 and 100 dollars per tonne, but by the end of 1970, the prices had slumped to about 45 dollars a tonne.

## continuing shortages

When this situation arose, investment fell, old and inefficient plants were closed down and new projects were either postponed or abandoned. When the demand surged once again in 1972-73, there was no additional capacity readily available to feed the market. These shortages continue even now for a variety of reasons, the more important being: projects in developing countries have been delayed. Many operating plants have a low capacity utilisation. It has been estimated that, if all plants had operated, at full capacity, there would have been an additional five million tonnes of nitrogen available in 1973 — 16 per cent, above actual consumption in the world.

Very little expansion has occurred in the USA, Japan and western Europe in

the recent years, while their own internal demands have increased.

Among these demands is the increased use of urea and nitrogen compounds for animal feed, particularly in the USA. Last but not least, there are shortages of feedstock, particularly naphtha, and tight pollution standards as the world grows more concerned with the environment and its ecology.

With the shortages as stated above, the urea prices rose to 150 to 200 dollars per tonne by the beginning of 1974 and today they have now reached nearly 400 dollars a tonne. This situation is indeed grave for the developing world because it has continued to depend upon industrialised nations for a substantial share of its fertilizer supply—nearly 50 per cent in the early sixties and almost 40 per cent in 1971-72,—though the imports by developing countries from developed countries was only seven to 10 per cent of the fertilizer production of the latter during the last decade. Thus, the availability of fertilizers on world-wide basis, which had been taken for granted in the past, no longer exists and, currently, the world fertilizer market is a seller's market.

## prospective demand

Let us have a look at what the demand is likely to be by the end of this decade and how production capacity will match it.

At the beginning of the last decade, in 1971-72, the demands were: 33.7 million tonnes of nitrogen for the world, nearly three times the figure for 1962. By 1980-81, the world demand for nitrogen is estimated at 62 million tonnes, an annual growth rate of 6.9 per cent, a much lower growth than recorded for the earlier decade at 11 per cent. Of this, 40 million tonnes will be in the developed countries (the USA, western Europe, Japan and the USSR); six million tonnes in socialist Asia and the rest in the developing countries. As regards phosphatics the world figure should rise from 21 million tonnes in 1971-72 to 34 million tonnes in 1980-81, a growth rate of 5.3 per cent per annum lower than that recorded for the earlier decade at 7.2 per cent per annum. Of this, 25 million tonnes will be in the developed countries, two million in socialist Asia and the rest in the developing countries. A "production gap" in the developed countries themselves is on the cards by 1980-81 where production capacity may not ex-

ceed 35 million tonnes nitrogen and 19 million tonnes phosphatics. The possibilities exist for developing countries (in the Persian Gulf) to export intermediates — ammonia and wet phosphoric acid — to the developed countries, particularly in view of the growing demand in non-fertiliser uses of ammonia (industrial uses) and phosphoric acid (animal feeds, detergents).

Shifting the emphasis to the developing countries, the consumption of nitrogen and phosphatics is estimated to rise from 8.6 million tonnes of plant nutrients in 1971-72 to 22.6 million tonnes in 1980-81 at an annual growth rate of 11.3 per cent per annum. By this time, nearly two-thirds of the consumption will be in six countries — India, Brazil, Turkey, Pakistan, Mexico and Korea.

## largest consumer

Amongst these, in view of its area and large population India is by far the largest consumer of fertilizers. Currently in the developing world, India's consumption is 30 per cent for nitrogen and 20 per cent for phosphatics; by 1980-81, India's share will rise to 39 per cent and 34 per cent respectively.

As against the projected demand of 22.6 million tonnes, the estimate of available domestic production by 1980-81 is 11.4 million tonnes of nitrogen and phosphatics. Thus, the production gap in the developing countries would amount to nearly 11 million tonnes. This gap would have to be met either from new production capacities or from imports. In this calculation, one must also note that some developing countries in the Persian Gulf may be exporting intermediates to the developing nations in which case the production gap will further widen. It may also be noted that nearly 70 per cent of this production gap would relate to Asia and the middle-east.

It has been estimated in a World Bank study that a new plant investment of at least five billion dollars would be required to meet this production gap of which roughly 70 per cent would be for nitrogen fertilizers alone.

Given the two premises:

- (1) a demand of 22 million tonnes plant nutrients by 1980-81 in the developing countries.
- (2) a level of five billion dollars new investment for meeting this target,

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one could consider how and where this investment has to be made.

Basically, there are three alternatives:

- (1) Domestic production.
- (2) Import from developed countries.
- (3) Import from developing countries having abundant raw materials.

In a choice, both financial and economic considerations have to be weighed one against the other. Foreign exchange-balances, indigenous resources in the larger developing countries in equipment, management expertise and labour, assurance of stable and secure supplies as a policy objective will all play a part in the decision. Further, monopolistic tendencies on the part of producers may bring in unrealistic pricing unrelated to real costs.

Between developed countries and developing countries with abundant raw materials, factors such as lower raw material costs and proximity to markets in developing countries may still not be finally attractive compared to low investment costs and higher capacity utilisation in developed countries.

On the balance, however, when imports are to continue the possibilities for such imports from developing countries with abundant and cheap raw material are brighter, considering the "production gap" envisaged in the developed nations themselves by 1980-81.

### new capacity

A case also exists, on economic grounds, for installing new capacity in developing countries which may not have the preferred feedstocks in abundance but have a large ready market, with internal facilities and access to alternative raw materials.

Considering these two possibilities, production centres at raw material sites would be Venezuela, Nigeria, the Persian Gulf countries and North Africa for nitrogen, purely export-oriented. Bangladesh would be limited by gas availability to about two large export-oriented plants. Indonesia has also the potential. For phosphatics, export-oriented locations would be Florida and west Africa largely with lower potential from north Africa and the middle-east (Jordan).

Considering new capacity in the con-

suming countries themselves with large markets but without natural gas or phosphate resources, establishment of phosphatics based on imported rock or phosphoric acid can be economic, specially when they are situated far away from phosphate resources. As regards nitrogenous fertilizers, urea is now the most common and widely accepted nitrogen fertiliser and will account for 36 per cent of the total world nitrogen capacity in term of ammonia by 1977. But urea production is through interaction of ammonia with carbon-dioxide which is itself a by-product in the production of ammonia; consequently urea cannot be produced at a reasonable cost from imported ammonia.

Countries with large built-in-markets, can put up inland plants with imported fuel oil, the cheapest petroleum feed stock, more easily available because of higher sulphur content and resultant problems in its effective use in industrially developed and ecologically motivated countries. This is the genesis of a string of fuel oil based plants now under implementation in India. Similarly, ammonia and urea may also be produced from local coal at a cost competitive with imported urea.

### role of coal

With the energy crisis, more and more effort is now being put in on a global basis to exploit coal as an important energy source. Inorganic fertilisers are the largest energy consuming input into agriculture and nitrogen fertilisers account for about 87 per cent of the total energy that goes into fertilizer production. Coal, as an energy source, is receiving greater attention than ever before. This lowly fuel is one of the prime natural endowments of India and if developing countries have to plan their development on resource-based approach rather than a need-based approach as a policy, then such a policy was foreseen in India and in 1969 a decision was taken to implement three large-sized coal-based fertilizer plants (based on indigenous coal) and locating the plants at pitheads. Later, South Africa also went ahead with a coal-based plant. After 1973, this approach has received the support of aid-giving institutions such as the World Bank. Even for fuel oil-based plants they were examining the possibilities of extending aid. They had suggested a study for building into the plant facilities for later changing over to coal when coal would be mined and readily available in the quantities required. In fact, they have recently concluded in

clear terms that coal may become a more attractive feedstock, as gas and oil-based feedstock prices increase, reflecting their scarcity value. In short, local production of fertilizer's intermediate and end-products is justified in many instances by economic factors specific to the consuming country and as an insurance against total dependence upon a possibly uncertain international feedstock and end product market.

### local raw material

Even in phosphatics, for large countries such as India or Brazil, local rock, though inferior in quality, could be processed locally for end-use with economic advantage compared to imports. When discussing phosphatics, I would like to refer to the production of nitro-phosphate in preference to ammonium phosphates in developing countries which do not have domestic resources of sulphur. Production of nitro-phosphates can minimise or even eliminate use of sulphur. Most of the controversies over their efficacy have been laid to rest; even if some of it lingers, in a developing country, one need not have the best, the second best will do if it is on a resource-based policy and not on a need-based policy.

In addition to the two areas/groups of countries discussed for new investment, a third area, much talked about and discussed, is the promotion of a new pattern of fertilizer production and trade through cooperative ventures between developing countries. Considering the geographical distribution of sources of fertilizer raw materials, locations of the larger markets and the technology available for dividing the production processes between intermediates and end-products, there could be a viable basis for a wide range of cooperative ventures, linking developing country producers and consumers with the participation of expertise from the developed countries for technical know-how.

Such joint ventures can be worked out and undertaken between (a) countries having raw materials and captive consumer countries — this would cover production of ammonia and phosphoric acid in producing countries and exporting these intermediates for the production of complex fertilizer in the consuming countries, and (b) export of finished fertilizers from producing countries to consuming countries for which the link-up would be between the exporting countries themselves.

The following group in (a) would

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appear to be feasible as identified by the World Bank study and mutually advantageous:

### Nitrogen

Venezuela — Central America  
Western South America  
Nigeria — Eastern South America  
Persian Gulf countries — India  
Bangladesh — India  
Indonesia — Malaysia, Philippines, Thailand

### Phosphate

Morocco — Southern Europe  
Tunisia — India, Pakistan  
Jordan — India, Pakistan  
Spanish Sahara — West African countries,  
Togo, Senegal — Eastern South America.

As regards (b), the possible areas of co-operation would be between Nigeria and the phosphate producers in west Africa, the north African oil producers and the north African phosphate producers and the Persian gulf countries and Jordan.

### cooperative endeavour

In India, this particular approach towards cooperation is being followed up vigorously with friendly neighbouring countries in the Persian Gulf as also Bangladesh.

Another area, receiving more and more attention, is the total potential availability of organic fertilizers. In 1971, the nutrient value of the wastes in developing countries was estimated at 103 million tonnes, eight times the quantity of nutrients consumed as inorganic fertilizers. In China, it is reported, two-thirds of the plant nutrients applied are of organic origin. Plants are being developed for the processing of organic waste — for hygienic disposal, organic fertilizer production, methane gas production and recycling salvageable materials (e.g. metals) in one and the same plant. Though the cost/benefit ratio of organic fertilizer application has been poor, with the rapid rise in the cost of chemical fertilizers and the proven effectiveness of combined use of organic and inorganic fertilizers, this particular usage will gather momentum in the developing nations. In India, the potential availability of plant nutrients through manurial resources like composts, sewage and sullage has been estimated at 2.7 million tonnes of nitrogen, 1.8 million tonnes of  $P_2O_5$  and 1.8 million tonnes of  $K_2O$  or more than six million tonnes of nutrients. The fifth Plan calls for harnessing these

resources — 7.5 million tonnes of urban compost, 350 million tonnes of rural compost and sewage and sullage. Additionally, the Plan calls for installation of a large number of gobar gas plants which would also yield good quality compost.

Considering that the gestation periods of new projects are anywhere between 3 to 6 years, some action in the short-term to alleviate the immediate problems are called for. I had mentioned earlier that proper capacity utilisation of running plants would by itself have contributed an additional five million tonnes of nitrogen in 1973. A recent survey indicates that capacity utilisation in developing countries was, on the average, below 55 to 60 per cent of rated capacity in 1971-72. There are a number of reasons such as feed-stock shortages, power outages, shortage of spare parts, lack of preventive maintenance, lack of trained manpower etc. Whatever the reasons be, there is ample scope for improving upon onstream factors. In India, some plants could have produced to capacity if it were not for problems in power supply; action is underway for installing protective in-plant power wherever possible. "Debottlenecking" programmes have been taken up in a number of plants to utilise spare capacities with balancing equipment.

Another area for action would be towards speedier implementation of new

capacities under construction. This is particularly applicable to India. Right now, there are nearly half a dozen projects under implementation in India with loans from the World Bank. Most of the procedures in the implementation of such projects are geared towards a practically realisable but tight time-schedule; it would be worthwhile to have these features built into project execution taken up with other means of financing, the main features of which are: foreign exchange release and import licence in bulk and freedom on choice of supplier — Indian or foreign — to market schedules.

All these measures and more are necessary if India is to come out of the woods on the fertilizer front. Against the consumptions projected for 1980-81 at 6.4 million tonnes nitrogen and 2.86 million tonnes phosphates, a deficit is also anticipated at 2.42 million and 1.83 million respectively. These gaps have to be met. Three urgent measures called for are: first, capacity utilisation to be brought up to at least 85-90 per cent; second, the new capacities under construction to be brought on line in the quickest possible time and gestation periods cut down drastically; and third, decisions on new capacities to bridge gaps to the extent decided by availability of resources to be finally available by 1976-77.

A few years ago in the middle-east

## Eastern Economist Annual Number 1975

This special issue, dealing with "Inflation in the world economy," discusses in depth and detail the major economic developments and trends in recent years which have resulted in or contributed to the problems of economic stability, growth or development which the countries of the world face today. The economic situation in different parts of the world is described and analyzed and profiles are presented of a large number of national situations. India's own economic circumstances and prospects are viewed in the larger world perspective as well as in terms of its own specific problems and requirements. The annual number is illustrated with analytical and descriptive charts and statistical tables. Priced at Rs 15 per copy this special publication is on sale with leading booksellers and it can also be had directly from:

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countries when large plants were built, if you suggested to any of those people to set up new capacity, they were hesitant because they had lost heavily due to the fall in the price of fertilizers. Prices came down entirely because of surpluses in the developed countries. Now, investment is not forthcoming because nobody is sure what is going to happen in the next five or eight years. However, if the manufacturer is assured of a suitable market on reasonable prices for a longer period, and the con-

suming country is assured of the supply, it would be certainly in the interest of both if the resources can be invested for the manufacture of fertilizer on a long-term linkages. There are problems of resolving long-term linkages in determining the price because the countries which have the resources to develop fertilizer capacity have asked for a reasonable return for capital. It is a reasonable demand to which any country should agree but simultaneously they do want to take ad-

vantage of the scarcity conditions which may develop from time to time. If we can get over that difficulty, may be we can develop a formula which can be of advantage to both. I think the fertilizer industry is at least one area where concrete linkages and proposals can be mooted in the developing countries so that the developed and the developing countries join hands to work out long-term plans.

# Manageable financial adjustments

W.M. Gilmartin

I PROPOSE to talk about the subject of international cooperation and foreign aid. I will try first to give some background on the state of international aid in the period which preceded the revolutionary price developments of recent times and comment on the impact of these price changes on the developing countries and their aid requirements. I will then note some of the implications of all this for international aid relationship.

As you all know very well, aid enthusiasms were already dwindling well before the oil crisis. The late 1960's and early 1970's were, as you remember, a period of so-called aid fatigue. It was manifest in the developed countries by increased questioning of the necessity and even the effectiveness of continued aid; and in the developing countries by increasing dissatisfaction with the kinds of international relationships and attitudes that accompanied aid. The consequence was declining aid contributions from some of the developed countries, and in India and elsewhere, a preoccupation with international self-reliance as a development objective. During this period, as Dr. Bharat Ram has indicated, international capital flows to developing countries did continue to rise to more than 20 billion dollars a year of which almost half consisted of concessional financing, otherwise known as official development assistance. Despite the increases, however, official development assistance was a declining share of total capital flows to the developing countries. It was also declining

as a percentage of the GNP of the developed countries. In the OECD countries it had fallen by 1973 to only three-tenths of one per cent of GNP. This was less than half the recommendations of the United Nations and the Pearson Commission. Furthermore, the nominal increase in aid flows disguised the fact that in terms of actual resources, that is in aid flows adjusted to price changes, the level was actually declining. In 1973, the last year of the pre-OPEC era aid flows dropped in real terms by about 6 per cent. This was the state of world assistance to the developing countries on the eve of the oil price upheaval.

Before these abrupt price changes, the World Bank had made some assessments of prospective concessional aid requirements of the developing countries for the period up to 1980. With allowance for moderate inflation, they had estimated needs for concessional aid as rising from about an actual 9 billion dollars in 1973 to about 14 billion dollars by 1980. Now in the light of recent price reversals for a large part of the developing world and prospects for greater inflation than previously assumed, it is roughly estimated that minimum concessional aid requirements necessary for only very modest advancement among the poorer of the developing countries will by about 1980 be almost 25 billion dollars or over 10 billion dollars more than the assessment of two years ago. In other words, with all these recent price developments and price prospects, the minimum requirements for essential aid of a concessional nature seem likely in the not

too distant future to be considerably more than twice the actual level in 1973. Furthermore, I want to emphasise the minimum nature of these estimated requirements for the poorer of the developing countries with per capita incomes below 200 dollars. These are the countries which Eric da Costa has described as the Fourth World. For more than a billion and a half of population living in this Fourth World these aid assessments assume barely adequate adjustments for inflation and a growth of income only slightly ahead of the prospective growth in population. Obviously in this hardly promising outlook one could expect little improvement—perhaps even deterioration—in the lot of the large proportion of this Fourth World population living in absolute destitution.

If one were to assume some significant improvement in the per capita incomes and in the income distribution of these one and a half billion living in the poorer developing countries, it has been estimated that the external concessional capital requirements by 1980 would be far larger—something in the order of 50 billion dollars or more than three times the 1973 level. Obviously there is little precision in this kind of forecasting. It does however reflect the kinds of concessional aid magnitudes which would have to be faced if significant external support is to be provided for development efforts despite the severely adverse shifts which have taken place in the terms of trade of most of the developing world.

There is the danger in all this that

## POINTS OF VIEW

one's first reaction to these figures taken at their face value is apt to be a feeling of futility in the face of their seemingly unmanageable magnitudes. Yet what I wish particularly to emphasize this morning is that such magnitudes as these need not be unmanageable in the context of a practicable and forward looking effort of international cooperation in adjusting to the sudden alternation of international financial relationships. I would assume of course that any such adjustment would take account of the poorer developing countries and their needs as an essential part of the considerable financial adjustment problems of the whole world. In looking at this world adjustment problem as a whole, the first prerequisite is to get used to, and not be put off by, the much larger figures of international trade and international capital flows than those to which we have become accustomed in the past. In today's world of international trade, capital flows and indebtedness, 60 billion dollars is not all that staggering. Of course, in terms of financial magnitudes the financial adjustment requirements of the developed world are far greater than those of the poorer developing countries. Yet it is the latter which seem likely to be less tractable but no less essential, as Mr. Lall has so convincingly emphasized, to any acceptable world-wide adjustment.

### assessment of problems

In this connection, it is important first to attempt some assessment of the adjustment problems of the developed countries and to consider whether or not they are really so serious as to preclude an adequate margin of continuing concern for the Fourth World. Recent examinations of the adjustment problems of the developed countries, especially by Hollis Chenery, the well-known World Bank economist, and others, have indicated that the debts they are likely to incur to the oil exporters over the next several years are not all that staggering in relation to their prospective gross national product nor to their prospective export levels. This is of course on the assumption that the industrial countries will respond to these international adjustment problems with policies designed to encourage the further expansion of real income and international trade in an atmosphere of international cooperation and mutual support rather than of competitive contraction. Examination of the problem in this context

indicates that with this kind of a dynamic approach, both internally and internationally, the problems of oil financing are quite manageable within levels of debt and debt service which, relatively, are considerably less than the debt burdens now carried by a great many developing countries. Hypothetical debt service calculations in a forward moving international economic context indicate that additional debt service because of oil financing for the OECD countries of Europe and Japan need be less than 2 per cent of GNP and well below 10 per cent of exports by about 1980. Furthermore, the bug-a-boo of dominant OPEC investments in the developed countries has certainly also been greatly exaggerated.

### mechanism for recycling

All this is meant to indicate that the adjustment problems of the developed world are eminently manageable. This is not meant of course to minimize the problems that will have to be solved along the way—both internally and externally—and the needs that will have to be met for mechanism which can recycle oil money effectively and with due concern for the weaker among even the more developed countries. Nevertheless, it appears definitely feasible to manage these international financial adjustments in a spirit of international cooperation and in the context of international mechanisms designed to meet what has become known as the recycling problem. It is also clear that such adjustments are possible with ample room for the world's affluent—the developed and the oil exporting countries—to earmark that small part of their income needed on favourable terms to help the poorer countries in their development efforts.

As you know, there have already been a number of suggested mechanisms for dealing with these international adjustments which would include either directly or indirectly provision for the requirements of the developing countries. So far however we seem a long way from recycling arrangements adequate to the needs of the Fourth World. The particular difficulty of this problem is that as yet the availability of accumulating oil funds is for the most part on terms which the poorest of the developing countries are not likely to be able to afford on the scale required without accumulating unmanageable burdens of external debt. Hence, for the large

number of the very poor in the world, their external aid requirements remain still in a state of deliberation and uncertainty. There are nevertheless hopeful moves in the right direction.

Taking the World Bank Group the total of operations amounted in the year ending June 1974 to 4.5 billion dollars which was an increase of about a billion dollars over the previous year. World Bank Group commitments to India, mainly IDA credits, have been running in the order of half a billion dollars and this year it may be somewhat larger than that. Of the 4.5 billion-dollar total, the commitments of the World Bank itself were 3.2 billion, those of the International Development Association were 1.1 billion and those of the International Finance Corporation were about 200 million. Since oil and other terms of trade adjustments burst on the scene, Mr. McNamara's assessment of World Bank/IDA requirements for the coming five years 1975-79 is 36 billion dollars. This would make allowance for the world price increases, bilateral aid uncertainties and a relatively growing role for the World Bank Group.

### practicable proposition

This figure of 36 billion dollars may be compared with 16 billion dollars in the preceding five-year period and thus would represent an increase in money terms of 125 per cent. However, taking account of actual and likely international price developments the increase in real terms would represent only something like 40 per cent or considerably less than the rate of increase that the World Bank Group was able to achieve in the preceding five years. Nevertheless such an achievement would represent a very substantial contribution to the concessional financing requirements of the developing countries in the years ahead and a considerable role in that part of the recycling process directed to this end. In the latter respect, the World Bank is already making a substantial and rewarding effort to increase its borrowing in the oil-producing countries as well as in the developed countries. Meanwhile the operations of the IDA are expected to expand and it is most encouraging that IDA funds have now been increased for the current three-year period to four and a half billion dollars which is fifty per cent more than in the preceding three years. It is indicated earlier that the pro-



blem still to be worked out is how to supply funds, as in the case of IDA, on terms that poorer developing countries can afford and on a scale to match their needs. Ways of ameliorating this problem in some degree are now under consideration by the World Bank Group and include such possibilities as adjusting periods of repayment of World Bank loans according to the means of borrowers, and examining possibilities for subsidising World Bank interest rates according to the differential needs of developing countries.

Very important additional financing is also being made available by the oil exporting countries to the International Monetary Fund for helping countries to meet their oil purchasing problems. As you know the Fund has established what is known as the IMF Oil Facility with an initial amount of over 3 billion dollars. India in the past year has drawn more than 200 million dollars from this oil facility in addition to other regular drawings from the Fund. Past terms for use of this oil facility have not been all that concessional—7 percent interest with a 7-year period for repayment including 3 years of grace.

Now, however, it is reported that this oil facility is to be considerably expanded to about 6 billion dollars in 1975 subject, with possible further expansion to be considered, and with a new provision for part of this facility to be available for the poorer developing countries at highly concessional rates of interest.

It is evident from this arrangement of the Fund, from the expansion objectives of the World Bank Group and from direct financing on a bilateral basis that a considerable effort is already being made to meet the greatly increased needs of the developing countries. Nevertheless, I think it is obvious that the efforts of the IMF, the World Bank Group and other multilateral and bilateral sources of financial assistance are still far short of the assistance that will be needed by the poorer developing countries over the next several years. How these needs will be met, and how the debt burdens that may result are to be carried is obviously one of the major uncertainties of the current financial scene. It is encouraging nevertheless to note the attention that is being given to this problem. It is also encouraging that the poorer developing countries are not forgotten in the wide atten-

tion being given to the search for international financial dislocations of the present world. As I noted earlier it would appear that these financial adjustments are manageable in an appropriately dynamic atmosphere of international cooperation. In such an atmosphere the needs of the poorer developing countries, while seeming to be large in absolute amounts, are really modest indeed in their relation to the magnitudes these days of international flows of income, trade and capital. Undoubtedly, the world will find ways to adjust to the international financial and monetary dislocations of the last few years. Hopefully the adjustments will be made, as they can be, in a context of international economic advancement. Such advancement must, as Mr. Lall has so convincingly explained, be world-wide and include the poorer as well as the more affluent countries if it is to re-establish a satisfactory international equilibrium. It must be an advancement carried out in a spirit of forward-looking international cooperation; one which combines consideration of self-interest with particular concern and compassion for the vast numbers of destitutes in the countries of the Fourth World.

# Cooperation among developing countries

Mohd. Fazal

I WOULD like to present to you a few facts which have come to my notice. The first fact relates to the compatibility in the economies of the developing countries such as India and of those countries which are developed and such of those countries which are more fortunate at the moment in having huge funds to invest and have been doing so for their own development. I would like to say, at the very outset, about the prejudice at times in the minds of people who have to spend money with regard to the suitability and the quality of the products that they can possibly buy from someone else. I am conscious of this when I dilate upon this aspect because a friend of mine—to give a homely example—a few months back in a large European town bought a neck-tie at a cost of 15 dollars. He was proud of it. When he came to the hotel he found that it was an Indian tie which could

have been bought in India for about five dollars. This sort of lack of trust in something which you have inside and the appeal for it outside is at times responsible in trading with such developed or developing countries which have acquired the know-how in the recent past. For instance, if we want to sell, say, a Kolynos tooth paste made under the same license and with the same ingredients, we may find it rather difficult. Therefore, the ground has to be broken in creating confidence.

I will again, moving away from the homely example, bring to your attention one example which came in my own working experience a few years back where a large company from India tendered to a large country with lots of funds and one of the oil-exporting countries at that, for a large industrial project. The know-how

and the components were fully established inasmuch as the know-how came from some of the developed countries with their labels on it and possibly they might have also held a hand in a part of the project. I do not blame the country which has to fix the contract because there is a psychological barrier. I would like to emphasize, nevertheless, that the job went to another developing country at 15 million dollars additional cost than what was quoted by India. I am not making any accusation. What I am trying to emphasize is that while there is a great deal of need for cooperation between the poor countries which are the developing countries, there is a certain degree of near-development for them to be of use to the neighbouring countries which have geographical and also, if I may dare say so, the political advantage of getting together. There is this element of non-confidence



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In the sense that near-developed countries or developing countries may not be dealing with the goods of the right quality and in the right, competent manner. This barrier will have to be broken and it has to be broken by inspections, by extensive talks between the technocrats and the manufacturers and the suppliers of goods and services from the developing countries to such of those countries which have all the money today in the world to spend on their own development and industrialisation.

### frightful alternative

The element of charity which started with the religious orders in the previous centuries, in the mediaeval periods, will not do in the modern world if we have to save it from economic convulsions and revolutionary situations. When I was listening in the morning to a few learned speakers and the papers that were read, when you come to think of the goal of zero per cent rise in the Gross National Product, one really feels scared. If the world is not going to combine to help the developing countries, then I for one foresee a good many economic convulsions and revolutionary situations. Therefore, it brings me again to the aspect of compatibility. Those of the developing countries in the modern world which are, by good fortune, in a position to invest large funds in their industries development have to join hands with developing countries which have the infrastructure of industry and technology and see if they can be of mutual assistance. I am aware of some dam-building contracts in some of the oil-exporting countries. At least these are jobs, ordinary construction jobs, which could be really shared by developing countries and which could be of mutual advantage. After all, developed countries are not there to build dams only they could do something else for the world economy.

We have been hearing a good deal about the export of technical personnel from India and some other developing countries. While as a matter of economic and political goodwill, it might be a good effort and should be continued, I do not foresee any appreciable return out of the export of technical personnel. A figure of Rs 300 crores was cited by Mr Vinod Parekh a few moments earlier. I wish it were right but even if it was Rs 30 million in terms of foreign exchange, I would be happy because I am sure it would not be. I do not at the same time like to discourage this movement of technical person-

nel because, after all, we in India have been helped a great deal by our friendly countries in the past with their technology. In as much as they seconded to us technological experts, we might as well do so.

I would like to mention for the benefit of such of those who are from outside this country and who have done us the honour of being here with us during these days of seminar that India has a great deal of technological competence in not only middle level technology but also in high level technology. India can put up thermal power stations up to 200 megawatt, and that is the size which a number of countries need. India can manufacture large steel structures which are needed in any project whether petro-chemical complex or fertilisers plant or steel plant or cement plant. India has all the capability to make technological and steel structures at the most competitive prices. In fact, the organisation with which I am directly concerned has got two contracts of this type: they are by way of sub-contracts from a company in a developed country. The job has been sold to us on 30 per cent premium. You can then well imagine at what price the main contracting company might have got the job.

The outflow of money from the OPEC and the Middle East countries to some of

the developed countries may be, in certain cases, out of proportion to the intrinsic worth of the equipment and technology they may be buying. Perhaps the slightly more developed than the other developing countries such as Egypt or India or Iran might be of greater assistance. It might release the pressure on investments which some of the developed countries are, of necessity, forced to make in the developing world. Therefore it would be worthwhile being a little more self-reliant and relieve those countries, to some extent, of their burden.

I would also like to stress the opportunities that we have, in this country, for export. We are asking the whole world to change its conventional mode of thinking; we are asking people to shed their prejudices and conformist ideas. We have to be novel in our own thinking. I refer to the considerable wealth of cattle that we have in this country—where we have considerable opportunities for export. I am told that a vaccine has been developed in the west which can immunise our cattle of certain diseases. On a very rough estimate which I made with one expert some months back I find that something like one billion dollars worth of meat can be exported from India, provided we can overcome our prejudices.

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And I see no reason why we should not overcome our prejudices because it would be doing a great service to ourselves and, perhaps, also to the cattle

which are mostly ill-fed in this country. We have, in our country, all the means modern slaughter houses, refrigeration and so on—which are conducive for ex-

port of meat to our neighbouring countries and more particularly to developed countries and for earning a lot of revenue.

# A Marxist's view of inflation

Tomas Kolesnichenko

TWO DAYS ago, my friend from France urged me to make a statement but I was then busy. But now I have been able to prepare a short statement. First of all, I want to disclose a secret and please keep it between us. As one of the editors of *Pravda*, I am a Marxist and as a Marxist I have a different approach to the many problems that have been posed before this seminar. But I welcome this diversity that has been allowed here for it will help to find ways to solve the problems created by the present crisis.

Honestly, there is neither a global energy crisis nor a global inflation from my point of view. There are problems which afflict the capitalist system. These problems of capitalism are known to every student of economics in our country and Marxists have predicted the true nature of capitalism. I am, however, not here to go into the details of these problems of capitalism.

We in the Soviet Union do not have these problems as you know them, but we are sympathetic to those who suffer from these capitalist problems and want to join the global effort to solve them, particularly to mitigate the effect of this crisis on the peoples of the Third World.

## Soviet example

This seminar has brought up the oil problem. Let me, therefore, touch upon what the Soviet Union has done to help a country like India to avoid the oil crisis.

The Indian press tells us that the USSR has helped India in the development of its oil industry in more than one way. It has cooperated in the exploration on land since the early stages and in off-shore regions, later on, for locating the Bombay High structure. It has also helped in setting up the two refineries at Barauni and at Koyali and is now assisting to set up the

Mathura refinery. What is of greater significance, however, is the Soviet Union's help in building up India's technical capabilities to develop the oil industry. This has been achieved by the training Soviet oil experts imparted to the Indian scientists and technologists in India as also in the USSR. Besides, the USSR has also helped in building up the Hind Oil Design Institute and the Research and Training Institute at Dehra Dun. Equally important was the supply of equipments by the USSR in each of these spheres. All these have helped India to advance its self-reliance in the oil industry.

As a result India's oil production has risen substantially. In the year 1950, the production of oil was hardly 0.35 million tonnes which has now gone beyond 7.5 million tonnes and this increase has been made possible to a great extent due to the cooperation and assistance that India has received from the Soviet Union.

## experts from USSR

In the context of the existing fuel crisis all over the world, the government of the USSR, as Mr Malaviya, Indian minister for Oil, says, has offered to depute experts to India to advise on:

- (a) Reduction in energy consumption in terms of fuel, power, and other utilities.
- (b) Reduction of losses in the refineries and improvement in yield.
- (c) Increased production of light and middle distillates.
- (d) Improved maintenance of plants and reduction in plant down-time.

Accordingly a team of Soviet experts visited the three operating refineries of the Indian Oil Corporation at Koyali, Barauni and Gauhati in September-October 1974 and held very fruitful discussions.

For this increased tempo of work,

more drilling rigs and other equipment as also technical cooperation are required. The ONGC has at present 56 rigs, of which only 32 can be put into effective operation. The old rigs need to be replaced and more efficient deep drilling rigs are required. The USSR has already agreed to provide additional machinery, equipment, spares and materials as also services of Soviet specialists, and it is hoped that such assistance and cooperation will help India in solving her oil problems.

## the problem

Now let me touch upon the problems of inflation which is the direct result of disorderly growth of the economies in the west. It is in-built in the system and is irreversible. Prices under these conditions always go up and never come down.

Till recently the economists depended on the Keynesian doctrine of state regulation. It worked for some time. But today it does not. Economists like Samuelson, Galbraith and others have not devised yet other alternative solutions. Today inflation is a manifestation of many problems of the capitalist economy and is no more a simple problem that it appeared at one time to economists. Two months back the President of the US, Mr. Ford, identified inflation as "Enemy number one". Recently he said depression was the real problem, which showed the inter-connected nature of inflation today.

If you ask me how to fight inflation, I could say there is a simple answer. And I will quote Marie Antoinette, the famous French queen who recommended the eating of cake when told that there was no bread. Similarly, one could say: buy precious diamonds in Cartier, so that the value of money does not depreciate. But I am not sure whether most of us here can buy precious diamonds. Certainly not the people from the Third World.

May be you think I am too pessimistic, but I am not. I see many ways to

break the growth in inflation. Specifically I see the possibility for this in increasing trade relations with the socialist countries and secondly in a wise policy on the part of OPEC to distribute their vast

resources for development.

Basically I believe the approach to the energy and inflation problems should be honest, disinterested and of mutual interest. I know some of you are going

to Hardwar the day after tomorrow. You will see there one of the examples of this selfless assistance of the Soviet Union to develop India's economy—the Hardwar Heavy Electrical Equipment Plant.

# Appearance and reality

Kan Mariwala

IN THE deliberations of the past few days when eminent speakers have shared their views with all of us, there has been one dominant factor and that has been the magnitude of the level of international trade. We started with the figure of 60 billion dollars' surplus in the OPEC countries per annum; we talked about India's need per annum of one billion dollars; a little while ago Mr. Parekh talked about 300 million dollars or thereabouts. I am afraid, the views that I am going to share will have a very small direct monetary dimension. Nevertheless, I do hope that they have a very large human dimension to it. I would like to submit for your consideration that any strategy designed towards economic development, and cooperation and towards increase in international trade (bilateral and multilateral) must have this very vital human component because, essentially, the goal of all strategies is human betterment and social welfare.

## college incident

When I was asked to speak, I wondered which particular facet I should bring to your notice, and this puzzled me a bit until I was reminded of a friend of mine who was in college with me, who had the great quality of articulateness, putting across whatever ideas he wanted to put across. This quality I lack, but I was considerably heartened when I remembered an incident that happened in our college days. Both of us were to appear for an oral examination in biology. On the previous day of the examination, there was a cricket match in Bombay and both of us spent the whole day attending the match. That night this articulate friend of mine had just enough time to read one chapter from his biology book which related to the nervous system of an alligator. The next day when he was called in before the three eminent professors of biology for a ten-minute oral interview, he walked with supreme confidence. The question that was put to him was: "Mr. so and so, can you tell us about the reproductive system of an amoeba?" Immediately

my friend started saying: 'The general reproductive system of amoeba reminds me of the nervous system of alligator which is thus'. And he kept them busy for the next ten minutes with his intensive knowledge—in depth—of the alligator's nervous system. I lack this ability.

Now, coming back to the subject matter, I want to present before you some of my thoughts. The first point that I would like to make is this. A large number of developing countries, including ours, have vast human resources, and these human resources have also the 'value-added' component. Hitherto, in the world of economics, in the world of international trade, we have talked of 'value-added' concept in respect of commodities, in respect of engineering goods and so on. My first point is that there is a very large, 'value-added' component in the human beings in terms of their talents and skills, which lead to scientific endeavour and technological innovations. Being familiar with my own country much more than many others though I have had the good fortune of visiting very many sister developing countries and a good many of the highly advanced countries, I would like to say that this is also one of the areas—exchange of technological experiences and innovation skills among the countries in the OPEC area, among the highly advanced countries and developing countries like India,—which could lead to optimum technology being developed.

## adaption of technology

The second point that I am going to submit for your consideration is that technology has to be adapted, has to be modified, has to be tailored, to suit a given environment, and I think, this is the reason why such an exchange of ideas, such an inter-action between the developed and the LDCs, among the developing countries at various stages of development, will be very fruitful. It is not in terms of money value of imports and exports. That is not of as great a

consequence as the fact that this kind of exchange could lead to the development of more appropriate technology, the technology which is more suited to a given environment. And this is an area where India has done good work with some success. The National Industrial Development Corporation has, indeed, been fortunate in sharing its development experiences in this field with 17 other countries, including Iran where we have been working jointly for the last six years. And I must say that we have learnt as much from them as we have given.

## a different facet

A point was made this morning about the medium or intermediate technology. I would like to view it from a slightly different facet. There are several phases of this technological endeavour. There is the basic scientific endeavour leading to a practical technology development. The next phase is technology-adaptation and this is vital. This is like transplantation of an organ in a human body. One could develop a synthetic kidney. But whether the human body is going to accept it or reject it will, in a large measure, depends on the manner in which it is transplanted. This is the adaptation that I am talking about.

The third phase is the translation of this adapted technology into constructional techniques and skills. I would submit that this is a very large area calling for cooperation between the highly industrialised countries where more sophisticated technologies may have been developed and the developing countries. The translation of these technologies in varying soils is precisely the area where the developing countries themselves can contribute significantly as has been demonstrated by our experience in this field.

A point was made by the distinguished speaker who spoke before me about the engineering exports from this country and a sort of informational credibility

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gap, which makes the developing countries, the OPEC a little hesitant to accept engineering products from this country. Although our engineering exports have shown significant increase, still it is not as much as we would wish. I think the point that Mr Fazal made is very valid indeed. That also indicates the two kinds of gaps which need to be fulfilled—one is the information gap and the other is the credibility about the capability gap.

I would submit that if, for a moment, you move away from the monetary, dollar, rupee or rouble aspect or the dimension of export to the developing countries, if our technical, professional and other people have the opportunity and rewarding experience of visiting the OPEC as well as other countries, I think this in itself would in a fairly large measure remove this credibility and information gap. Because, if we are really able to do a good job, whether it is selling, designing, construction or supervision, I think automatically confidence develops, if we are able to do this, we must be making fairly good equipment so why not try to take it.

### consultancy experts

Finally, in sending our experts outside in taking the consultancy, design, construction and production contracts, either directly in the OPEC or as sub-contractors to companies from the technologically advanced countries in the world, there is implicit in it the technology transfer facet which I think is very vital to all of us in the developing world. Whether it is India, Iran, Chile or Kuwait, this transference of technology and sharing of experience is another facet, which does not really go out in the import-export statistics, but which ultimately I think does shape the destiny and course which provides the channel of effective inter-action in monetary terms.

One small thing which, as far as I have been able to see, has not been mentioned is this. In so far as the improvement of trade or export possibilities with the highly industrialised countries is concerned, the countries of the developing world have hitherto talked about such products where the manpower input is high, since the cost of manpower in most of the developing countries is significantly lower; therefore, these are the areas that we should aim at by all means. But I would like, for a moment to take you to a slightly tangential viewpoint and that is to look

at the product range. Take the example of an automobile. What is the difference between Rolls Royce and an Austin? The prices of the two products are enormously different.

If one were to analyse, one would find that it is not the equipment which manufacture these two cars, it is not even the technology which is significantly different, what makes the Rolls Royce such a highly expensive product is the amount of man-hours that it has gone into. So, I would like to suggest that, apart from the traditional thinking of the highly man-power intensive industries in which the developing countries can help the industrialised countries, we should not lose sight of the high value and high quality product, where again the human skills and talents could be most effectively utilized.

As I said, the company I represent, the National Industrial Development Corporation, has been working in several other countries and over and over again we have come up with this: that the joint endeavour between human skills, human talents by various countries, ultimately produce a package which is minimum in cost and which is commensurate in quality.

I would end my little rambling address to this distinguished audience by again emphasizing that whatever strategies we are able to come up with towards this goal, whatever themes for the new development decade that has begun

we may shape, I would suggest that we concern ourselves much more deeply about the contents of these programmes, about the operative facets. As the minister said this morning, all these programmes in both national and international seminars often happen to be preoccupationally concerned with the label or the name of the programme.

Therefore, with your indulgence, I will conclude my speech by telling you another story of a friend of mine in America, who had preoccupation with pornographic literature. He was an avid reader of the so-called dirty books. One day as he was going to catch his flight at the airport, at the book-shop he noticed a title which was staring at him and the title was "How to hug". He knew that this book was not in his library. So, he bought it and took it to his aircraft. After fastening his seat belt, as the aircraft was moving through the runway, he excitedly opened the book and he found the inside page repeated the title "How to hug". When he turned to the next page he found that it was the Fifth Volume of the Encyclopaedia beginning with "H-o-w" and ending with "H-u-g"!

May I repeat that in the figures that we have talked about, billions, crores and what not, we do not lose the social factor embodied in the human being, in the programmes and strategies that we are thinking about we do not become so preoccupied with the labels that we forget the contents.

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# Avoiding inflation as well as recession

T.A. Pai

THERE is no doubt that the world economy is under an unprecedented strain—at least to the extent that the present generation has not witnessed in the past one like this. Inflation all around, a deep energy crisis, set-backs to economic growth, oil prices, fuel shortages in many parts of the world, distortion in the patterns of world trade—it is certainly not a pleasing situation for the common man to ponder. In seeking answers to many problems facing the governments the world over, your contribution is, therefore, bound to make a difference and a significant one at that.

The goal of a developing country can be briefly postulated—it is to bring itself as rapidly as possible into the twentieth century and with the apparatus of individual and group well-being—food, clothing, education, health services, housing, entertainment and transport—which are associated in every mind, urban and rural, with the twentieth century existence. The task is, therefore, to overcome the backwardness and poverty, because of which the things associated with modern civilisation are now denied.

## social structure

One cause of poverty is an oppressive social structure which channels return from the many to the few and which denies the individual the natural reward of his efforts at self-improvement. Another is possibly an inefficient apparatus of public administration, which denies to the country the things—law and order, education, investment in roads, power etc. which are possible only, when there is an effective and incorruptible public authority. One more factor is that poverty is itself a principal cause for its own perpetuation in the sense that poverty denies the country capital for investment, revenues for education or purchasing power for consumer products, which are an incentive to effort.

Where do we stand now, particularly in this part of the world, rather in our own country? Life is still so burdensome to vast sections of the country's rapidly rising population that their weariness cannot

be taken for unquestioning resignation or submission to despair. The common people do not and need not understand the sophisticated language in which the intellectuals here and elsewhere expound the philosophy and dynamics of planning. They must feel the fruits in order to perceive it and when the fruits are a mixed bag, their faith in planning is bound to be a cynical one. Sacrifice is, no doubt, a must at every level but the enjoyment of a reasonable portion of fruits of planning, now and then, should not be looked upon as an unpatriotic indulgence. Such enjoyment helps reduce the tension and the sense of insecurity, which now grips large sections of the population.

## misleading measure

In a country like India, national income, as a measurement of progress, is misleading from one point of view. The quantitative increase in money terms, even at constant prices, even when it is substantial, does not convey the great qualitative changes that lie behind. The modernisation of agriculture over considerable tracts of the country, the diversification of large industries, the diffusion of small industries with the help of electric power, the spread of banking, the acquisition of technical skills by a new generation are instances of economic advance, which the figures of national income cannot adequately reflect. On the other hand, when national income is divided by the figure of India's population, the resulting per capita income suggests, still, a degree of poverty. Economic progress is not a fact of sentimental appreciation. It does not easily lend itself to measurement when the variables are so large in number and their dimensions are so vast as in India.

At the advent of freedom, we had necessarily to build an economy because there was no worthwhile economy as such. The political aspirations of the people, in terms of economic freedom were naturally for an economic core, represented by the legitimate demand of the people that they must be self-reliant and there will be more economic equity.

We were, therefore, committed, as a part of our heritage of our struggle for independence, to two basic concepts, namely, economic self-reliance and economic equity. Government had, therefore, to take a very large number of steps which have covered the entire gamut of economic policy—fiscal, monetary, production and distribution. It is, in this context, that the inevitability of public sector in an underdeveloped economy will have to be understood. In an economy which produces sufficient surpluses finding its way to optimal utilisation in basic sectors, there should possibly be no need whatsoever for a specialised public sector. In a low-pitched economy, where generation of surpluses is low and distribution of surplus is limited, massive investment has necessarily to come from the government.

It is also not possible to conceive of a frame of economic growth unrelated to the growth of social realities such as education, housing and health. There cannot, therefore, be any alternative to government trying to convert itself into a trustee of public savings for public investment in areas of public utility.

## government's role

Whether it is infrastructure or irrigation, technical education or electrification, government has necessarily to be the focal point of this development, without which, neither agriculture nor industry could grow. Public sector will and should expand to the extent resources are available in basic industries, especially. If the period of gestation in this sector has become longer than can be justified on economic grounds, the deficiencies are organisational and would need to be corrected.

In the Indian situation, the basic compulsiveness of a public sector provides the rationale of a mixed economy, in the sense of private entrepreneurs cultivating the areas where public investment is neither possible nor desirable. The problem of mixed economy is not only how to keep the mix in equilibrium but also to make the public sector more economically responsible and the private sector more

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socially responsible. India has certain natural advantages for expansion in public sector. The government is more favourably placed than the private sector in raising domestic finance and foreign exchange resources for the new enterprises.

The recent hike in the oil prices and the resultant inflation all over the world has underscored two very important factors in the world economy:

- (i) The industrialised countries can no longer take supplies of raw materials for granted and they have to be ready to pay reasonable prices; and
- (ii) There is no escape from a concept of complementarity of production among the industrialised countries and the more developed among the developing countries if industrialised countries have to escape either soaring inflation or recession. This is because dependence of the industrialised countries on oil is much more critical and, if they have to fight back depression, they will have to export in substantial quantities. This they cannot do in a high cost economy unless they have a production cooperation with the more developed among the developing countries. The new world situation, therefore, has brought in a new world economic order of complementarity and cooperation as distinct from compartmentalisation and confrontation.

### the imbalance

Government of India is acutely conscious of the imbalance created by the expanding balance of payments gap and has, as a result, adopted a network of important policy attitudes. The first is to work for a great degree of flexibility and selectivity in the system of industrial licensing and financial infrastructure. The objective of this policy is to optimise use of installed capacity in selected areas, to introduce greater selectivity in credit planning, to make more money available for purchases of capital goods and to expand the export efforts. These policies obviously are calculated to cope with a situation in which liquidity has been lessened as an anti-inflationary step and the economy has also to be saved from recession.

In our exports, we are now planning not only to sell goods but also enter into

turn-key contracts as also sub-contracting arrangements with world firms because it is in the interest of both that transfer of finances should be *pari passu* transfer of equivalence in labour costs. We have also started working out common production arrangements with our friends in the middle-east and west Asia in terms of which the industries which can be set up quickly in India would be financed by these countries with an understanding that part of product will go to them. The new export strategy will be of particular relevance to the industrialised countries because they will find it increasingly impossible to function at competitive cost levels unless they work out production complementarity with the developed among the developing countries.

### mixed economy

We do believe in mixed economy and government of India's policies have been based on a concept of a mixed economy; but within the parameters of a mixed economy it has always been understood that the public sector will have the commanding heights. This only means that the public sector will provide the guts to the economy so that there is no feeling that keys to the economy are held by individuals and not by the people of India as a whole. We are now trying to expand the concept of public sector both in content and in form. In content we are trying to establish public sector presence in nodal consumption sectors as a stabilising force and we are also trying to modify the content of public sector by converting public sector companies from 100 per cent government equity to minority public participation. This is an exercise in participation and also in mopping up public savings. It is understood that the classical capital market is today a myth in a developing country such as India and, therefore, we have now to transform the concept of buying a scrip in a company on the basis of share prices quoted in newspapers to the concept of participation in companies in the functioning of which people in the area have direct interest. In my view, public participation in developing economies in this particular fashion can substantially perform the functions of a developed capital market in industrialised countries.

We have received a large number of proposals for transfer of plants on 100 per cent export basis. It is necessary to make it clear that it is neither possible nor desirable to announce a global policy

on a issue like this. You will appreciate that we are interested in export and, therefore, a proposal based on 100 per cent export will necessarily have very expeditious and favourable consideration. We also would like to make it clear that we are acutely conscious of the process of technological obsolescence. At the same time, it also has to be appreciated that we cannot import technologies which do not synthesise with the framework of expertise and infrastructure in this country. Again, we are absolutely committed to keep technological imports limited to areas where indigenous competence is absent but has to be generated and should be generated quickly with external technological assistance.

We are not averse to equity participation but we want to limit it to spheres where the stake of the foreign collaboration in the production *per se* is a condition of sustained production of requisite quality and quantity standards. Such participation should normally be below 40 per cent but it could be well above it in cases where there are significant prospects of exports and the technological input is such in which equity sharing at higher levels is in national interest.

### great possibilities

Finally, the industrial situation in India presents a picture in which there are great possibilities of growth but also some immediate obstacles. The biggest obstacle in my view has so far been our attitude to industrialisation. We treated the government and the industries as on opposite sides of the fence and the inter-sectoral balance has, to a large extent, blinded us to the more important realities of the economic situation. What we are trying today is to consider each investment basically as national investment, which it physically also is, considering the order of participation of financial institutions in the investments which has taken place even in the private sector so far. As far as public sector is concerned, the concept of dichotomy between government and the functioning units has to disappear and, as far as the private sector is concerned, production in the nodal industries is as important to the country as it would have been had these industries been in the public sector. We are, therefore, basically trying to bring in an approach geared on industrial priority rather than sectoral precedence. We are trying to bring in a complete revolution in the attitude of the government *vis-a-vis* industrialisation in this country. We have



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achieved significant success already and we do feel that in the course of the next two to three years pilgrimage to Delhi by industrialists all over the country will no longer be treated as wasteful occupational hazard but as rewarding inter-communication between agencies engaged in the common endeavour of building industrial India. This is an aspect of industrial culture which, to my mind, is of greater significance than any other aspect in keeping with the difficult situation ahead of our economy.

Coming again to the question of public sector mobilising resources from the common people, the Krishna Menon Committee on public undertakings had made a strong recommendation in its favour as well as for labour participation in capital. You may now be aware that the state owned Scooters India Ltd. have offered 49 per cent of their equity shares to the public and this is the first public sector company to offer equity participation to the public. As a matter of general policy, equity in public sector concerns had so far been exclusively derived from government. My principal effort has been to elevate the conceptual level of the project from government project to a national project. This does not, in any way, mean that the differential character of these projects has changed, as government would necessarily have minimum of 51 per cent holding. This concept has received contextual support from today's constraints on investible money with the government.

### critical action

I am confident that what we are going to do is not only correct in the present situation of tight money but also critical in long term range of securing a sense of participation of Indian investing public in public sector projects. We feel assured that the public sector projects can secure such a subscription because we have been able to generate adequate confidence in their functioning to demonstrate that, given correct environment and leadership, they can function very well. We are also going in for public deposits in some selected public sector projects which would give them higher liquidity, absence of which has been constraining their operation in the present tight money situation.

The production in the industrial sector is certainly behaving better than last year. In the first quarter of 1974-75, the rate of growth was 3.2 per cent as

against minus 1.8 per cent in the corresponding quarter of last year. Advance information available with respect to production in a large number of industries, which account for a substantial weight in the index, shows that this rate of growth is likely to be maintained during the rest of the year also. It is likely that 1974-75 would show a rate of growth between 3 and 4 per cent. Although this is better than last year's it is far below the country's industrial potential as well as the rate of growth which was achieved in the early sixties. The main task of public policy in the coming years is to step up the rate of growth of production in line with the targets.

### industrial policy

Some recent press reports have resulted in a certain amount of confusion regarding the intentions of this ministry with respect to industrial policy. Some of these press reports have given the impression that the ministry would like to move towards a market-oriented policy without regard to country's industrial priorities or planning. This may be an appropriate occasion to explain the objectives of government's industrial policy. The following are some of the points which may be mentioned:

- (i) The government has tried to provide flexibility to the producers in determining their product-mix in machine tool, industrial machinery and electrical equipment industries however, as is evident from the list of industries in which this facility has been granted, flexibility has been provided only in industries where the entire product of that industry is high priority. We need not be fussy whether sugar machinery is produced or paper machinery is produced, but the government is certainly fussy about whether machinery will be produced or domestic refrigerators or air-conditioners will be produced.
- (ii) While flexibility has been produced where it is needed, government has also tried to regulate production and/or consumption of products which are in short supply and whose use has to be regulated according to overall social and economic priorities. The Cement Control Order and the Produc-

tion Control Order in respect of paper are instances of this kind. The above shows that there is no intention to move towards an unregulated economy.

- (iii) With regard to defining capacity in terms of inputs or critical equipment, it may be clarified that the intention is to be selective, and use this procedure only in cases where such a definition would enhance efficiency in the use of scarce raw material or capital resources.
- (iv) Some of the recent measures in the field of licensing are: defining capacity in physical rather than value terms, permitting three shifts operations, revision of the value limit for small scale sector, price decontrol subject to certain guidelines in respect of commercial vehicles, cars and tractors.
- (v) Some of the policy measures which have been considered are: encouragement to use capacity for export production by liberalising licensing restrictions which may come in the way, and encouragement to the growth of capacity in the export industries in the engineering field.

### problem solved

Less is being heard now in India about the threat of recession in the last few weeks. It may be mentioned that the problem of accumulation of stocks in textile industries has been solved to a large extent by reduction in prices in the month of November. This was in line with our expectation. It may also be mentioned that in the month of December, there has been a sharp increase in the production of commercial vehicles over the month of November (18 per cent), cars (34 per cent), motor cycles (10 per cent), three-wheelers (17.4 per cent), and so on. The present production trends do not point to a recession in the economy. The effects of world recession on the Indian economy are hard to predict, but they need not be very large since exports are a relatively small proportion of national income as well as total industrial production. This, however, is an area of uncertainty and should be recognised as such.

Our main response to any tendency towards recession must be by in-



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creasing investment in the economy, and by increasing exports. Realising that if our economy has to survive, there is no option but to step up our exports significantly, every possible measure is being taken to increase our export earnings. Unconventional exports in commodities such as sugar and cement are being followed up. More important, our effort is to increase our exports of non-traditional engineering goods particularly to the developing countries. Towards the furtherance of this objective, a number of bilateral trade agreements have been entered into and joint commissions with a number of countries set up.

The strategy is to fully exploit our present capacity with the advantage of cheaper cost of production to meet the developing needs of various countries either directly or as a third country supplier. Instances deserving particular mention are the orders secured for the supply of equipment for a coke oven project in Yugoslavia, structural for a project in Kuwait, buses to Zaire, Afghanistan and Sri Lanka. We have also reached an understanding with Hungary, after an appraisal of our engineering and technical capabilities for preparation of a detailed project report for setting up of a coke oven project in that country on a turn-key basis.

### mutual cooperation

All possible avenues are being explored for mutual cooperation and expansion of trade with various other countries. Right now negotiations are in hand with the USSR and a team is in our country to explore the possibility of our supplying heavy engineering equipment to third countries which are setting up projects with the assistance of the USSR. We are also negotiating with a number of countries for assistance for the development of the natural resources.

In order to facilitate exports, government has recently made certain changes in the value added criterion for steel-based exports. For items such as steel pipes and bright bars which were facing difficulties in the export market, the value-added criterion has been substantially modified 10 per cent as against 25 per cent along with certain changes in the base of calculation. In order to step up investment, despite difficulties on the resource front, government has tried to maintain the tempo of investment in 1974-75 and ex-

pects to do so in 1975-76 also. Figures of the Annual Plan for next year are likely to be available at the time of the Budget. The present slackness in the capital market as well as the difficult resource situation of financial institutions may be referred to by the reporters. Since, so far, the government has not done very much in this area, it may be necessary to recognise this as a problem and indicate government's intention to take necessary measures in these areas also.

### basic law

One of the basic laws of economics is that supply of output is directly related to price. The experience of our country, however, in the last few years, shows that such direct relationship between supply and prices is not evident. While prices have been increasing at the rate of 18 to 20 per cent, the index of industrial production recorded a growth of only 0.7 per cent in 1973 over 1972 and 1.7 per cent during the first half of 1974, as compared to the corresponding period of 1973. At the same time, there is substantial unutilised capacity in the country and, it is, therefore, clear that the current inflation is not the result of full employment of existing real sources in the short-run, as is generally the case in advanced countries. With the slightest trend towards decline in output prices, there is a tendency for the output to be curtailed in order to ensure that the decline in prices does not become cumulative. Thus, all the operations are geared to an expectation of perpetual shortages and rising prices. This would be a misleading indicator of the social cost of under-utilisation of capacity.

In order to avoid inflation, I therefore, assign a crucial place to utilisation of existing capacity in the industrial sector. This is crucial, because utilisation of existing capacity can lead to substantial gains in production in the short run without too much monetary outlay on additional investments, whose benefits can be available only after a considerable time-lag. The immediate problem, therefore, is to overcome the constraints that come in the way of using the capacity that we have got in this country with past investments. In this task, both public and private sectors have to play their assigned roles and it is my hope that we can create a system which would introduce a social compulsion to produce and utilise existing capacity rather than devote our time to finding

alibis for inefficient and under-utilisation of the capital resources of the country.

In understanding the current situation, it is important to remember that any turn-around from inflationary phase is bound to create some problems of adjustment for individual industries in the short run. The correct way of coping with the situation is to adjust prices and costs to the changing level of monetary demand rather than resist a lowering of prices in the belief that inflation has now become a permanent feature of our economy. There is no lack of effective demand in the country at proper prices and, if this is done, I have no doubt that we shall be able to avoid both inflation as well as any threat of recession, whether real or imaginary. Step-up of production is the only answer to both inflation and recession. It would be my endeavour to give a measure of flexibility to the industry for increasing production within certain parameters.

### economic mysticism

I am reminded of a story. When a man was asked about the age of a river, he stated, "It is three million and 21 years". Asked how he could give such accurate information, his answer was, that, 21 years ago, the river's age was given as 3 million years! There is a fair amount of economic statistics in this. We delude ourselves into thinking that we live in a more rational and scientific age than our ancestors. It is also true that we live in an age of a particular mysticism and the mystic religion today is economics. I am chary of economic platitudes, because they fossilise the attitudes and perspectives. The economists can never be wrong in their diagnosis and forecasts, which are a function of several variables! Their predictions are admittedly subject to operation of unpredictable outside influences.

Those in political authority, however brief, are not in that unenviable position. In sharing with you the thoughts I have, on the grave economic issues facing the country and the world alike, I was not enthused about taking dip into high intellectual economics. I hope that my reflections can stimulate appropriate reactions in the nature of well intentional counsel from such a high intellectual body as this Forum of Financial Writers.

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# In and around Pacific Asia--III

V. Balasubramanian

THAI INTERNATIONAL—the “Get Into It” airline—reminds passengers about to disembark at Bangkok that “while Thailand is a land of smiles and a country where almost every visitor greatly enjoys himself, it should be remembered that the King and the Queen as well as the Buddha are all sacred and are not to be the subjects of even the most innocuous joke.” Indeed, the divinity that doth edge a king is supposed to be taken so seriously in that country that the visitor is further advised that “as Thai money has the King’s picture on it, even money itself should not be mistreated”—an admonition which is perhaps superfluous in the case of most Indian travellers abroad who normally do not have much foreign exchange either to mistreat or treat themselves with.

Thai International was not exaggerat-

attempts made by the King to bring unity to the different hill tribes, there were still persons who would attempt to malign the royal effort. Dr Asa Mekasawan, governor of Chiangmai, Thailand’s famed northern city, told the court that the poem was calculated to create an impression among the public that the King was favouring the hill tribes while ignoring the farmers. Where the sympathy of Bangkok’s ebullient student community lay was clear enough during the proceedings in the court for, even as the loyal cartoonist concluded his evidence, he was booed and jeered by the students crowding in the courtroom.

It need not be doubted, however, that the King and the Queen are widely respected and admired in Thailand. At the same time, the institution of monarchy as a positive and functioning political

of history as well as his own personality, somewhat on the model of the Shah of Iran. King Bhumibul, Adulyadej, however, has not seen himself in that role. On the contrary, he seems to have resolved to abide faithfully by the implications of the “October revolution” and preside, strictly as a constitutional monarch, over a process of nursing his country into a parliamentary democracy.

## programmed evolution

It could be said at once that this resolve did (and does) the King great credit, but it is not equally clear that it has brought or is bringing Thailand the benefits that this idealistic approach could in theory have been expected to yield. In any case the man whom the King has chosen to be the Master of Ceremonies for guiding the programmed constitutional evolution has never been very convincing in that historic role. The prime minister, Mr Sanya Dharmasakti, was admittedly picked by his King because of the reputation that this elderly scholar-statesman (who is perhaps more scholar than statesman) enjoys for piety and integrity. Valuable as these qualities are in any human being, they have unfortunately not been enough in this instance to enable their possessor to hew a stable path for his country’s immediate political progress.

At the time I was in Thailand, the then impending general election, which was to set the seal on the democratic constitution so trustfully written up following the overthrow of the military regime, was no doubt being looked forward to by the Thai people with a great deal of excitement but without solid expectations. As a matter of fact, it was already being taken for granted that no stable administration or even alliance was likely to emerge after the poll. This was not only because 42 parties and some 2,199 candidates were in the field for 269 seats. The real problem was that there seemed to be more generals than men in these hordes of vote-seekers. This seemed to be true even of the Democrats who started with the strategic advantage of having provided at least a symbolic opposition to the military dictatorship and the tactical advantage of some organizational resources and expertise.

In the event, in the elections held on

## WINDOW ON THE WORLD

ing. In the third week of December last when I was spending a few days in Thailand, the local press was reporting what was described as the “lese-majeste trial” of Mr Praderm Damrongcharoen, editor of the student magazine *Sajjatham*. The offence he was charged with was that he had published a poem which, it was alleged, was in the nature of an insult to the King and the royal family since it appeared to suggest that they were visiting the hill tribes in the north frequently and bribing them with gifts of plants and cattle. The trial featured evidence by the cartoonist, Mr Prayoon Chanyawongse, a Magsaysay Award winner, who had denounced the poem and its publication in a newspaper *Thai Rath*. He testified that he felt sorry because, despite the

force seems to be coming increasingly under some very genuine and serious questioning within as well as outside the student community. This is not surprising since royalty had been playing a merely ceremonial role during the long night of the military dictatorship. What is surprising, however, is that, even after the regime of Field Marshal Thanom Kittikachorn was overthrown in October 1973 following the student agitation, the King has shown no clear purpose in terms of giving a positive direction to the political process. Many friends of Thailand, though perhaps not the Thais themselves, should have often thought in the course of 1974 that what Thailand needed as well as deserved was a firm and enlightened sovereign functioning with the authority

January 26, the Democrats had emerged with 72 seats, having polled 26 per cent of the total votes cast, although this has placed them in the position of being the largest single party. It has also confronted them with a situation where they are outnumbered by one by the combined strength of the two major right wing parties, Social Justice with 45 seats and Thai Nation with 28 seats. At the time of writing reports in the newspapers state that Mr Seni Pramog, leader of the Democrat party, has announced that he would form a minority government on the basis of a coalition with the Social Agrarian party which holds 19 seats. This alliance would still need outside support, some of which is expected to be provided by the Social Action party which disposes of 18 seats. Incidentally the Social Agrarian party is right wing and it is therefore likely that the new minority government may have to accept compromise as a way of life. Even then it is by no means the case that Thailand could look forward to stable government with reasonable certainty.\* Incidentally, the election of the Speaker of the National Assembly has produced a surprise in the form of the success of a right wing candidate, Mr Prasit Kanchanawars leader of the Social Nationalist party.

### rampant factionalism

Meanwhile, the factionalism which came to the fore in the months before the election and the stories of corruption and money flowing like water, which were common on the eve of the poll, must have left a sour taste in the mouth for those sections of the Thai public who might have been hopefully thinking in terms of clean politics and clean government after all those dirty spells of autocratic rule by military strongmen.

The student community of Bangkok to which must go some of the credit for the overthrow of the Thanom regime in October 1973 has, within limits, been a cleansing and 'leavening' influence in politics, but it is now more than possible to doubt that it will not increasingly be having its own problems of integrity, discipline and purposiveness. Although, as in the *lese-majeste* case, it may still be able to function as a liberalizing force in public life, its leadership has itself come under some public suspicion and much critical scrutiny lately. The audit committee of the national student's centre of Thailand (NSCT) recently reported large-scale swindling of funds amounting to 21 million baht (about a million US dollars). The committee accused its treasurer, Mr

Boripat Methavet, a 4th year student of Chiangmai university, of embezzling more than half a million baht and diverting the money to his family's lumber business. The closing weeks of December last found the NSCT declaring that it would file a law suit to get the money back from its treasurer who, at that time, was reported to be in hiding and hard to trace. The strength of the student movement has been its crusading zeal and it is rather said that its image has been spoiled, even if only temporarily, at a time when parliamentary democracy is having its trial run to the accompaniment of some of the demagogic vices or weaknesses associated with this form of government even in its mature phases.

### restless frontiers

That Thailand could ill afford political instability or social unrest is clear enough. For one thing, its restless borders are not getting any the less restive. Much of Thailand, it has been said, is no man's land, even as most of Burma is. This may be an exaggeration but there is no doubt at all that long stretches of Thailand's frontiers are chronically disturbed. First there is the persistent Laotian infiltration on the north and east. Then there is Thailand's border with Burma in the north and west where the Shan rebels, traditionally at war with Rangoon, and some of the world's most determined drug-running gangs have together made it impossible for authorities on either side of the border to maintain even a semblance of order. The Thai-Malaysian border, again, is pounded by racial and political tensions, with political rebellion, banditry and smuggling making a malevolent and violent trinity. Although the Thai and Malaysian governments have attempted some degree of co-ordination of their respective operations against the lawless elements, the Muslim separatists in this region pose a delicate problem to Bangkok in its diplomatic and political relations with Malaysia.

Early in December a notorious bandit leader operating in southern Thailand kidnapped three women teachers and held them as hostages. Even as all Thailand was fretting and fuming against the feebleness of police operations against the kidnapping gang, two more teachers were seized, driving the entire community of teachers in the south to stage a mass protest against the lack of security for them. The *Bangkok Post* saw in these kidnappings more than stray acts of criminality. As this newspaper put it, "Thailand's south is such an explosive mixture of warring races, creeds and ideologies that the kidnappings are but the most evident and obvious marks in an increasingly complex situation." Describing the kid-

nappers as "the most apparent menace in the south today, the *Bangkok Post* said that "with five teachers kidnapped in the space of a week, as well as other citizens, Thai and foreign, kidnapped over the past years, these menaces are, in their own way, as dangerous as the more widely publicized kidnappers of Argentina or Brazil." It wound up its observations with the sombre statement that "the blame, in a certain way, rests with all of us in the capital who have not taken the southern woes seriously enough or soberly enough and those of us who refuse to acknowledge that our fellow-countrymen are in deep, dangerous explosive trouble."

It is in a way strange that Thailand's military strongmen, who had been ruling the roost for so long and until so recently, had left such a vast legacy of battered and bruised frontiers and border areas. It is of course true that these parts of Thailand are in the most violently agitated region of Asia. Even so, it could perhaps be surmised that the US military presence in Thailand, which itself was one expression of American military strategy for southeast Asia centred in Vietnam, has at least been partly responsible for the successive military regimes in Bangkok failing to work out a political or military policy more precisely tailored to Thailand's own need for reasonably peaceful and secure frontiers. Not that whether the or now there was or is any wild antagonism among the people towards the American bases. On the contrary, the Thais, who are engagingly paradoxical in the sense of being both practical and happy-go-lucky, have only been too conscious of the material benefits of the bases especially in the northeast, where the more substantial of them have been located and the local communities have been benefiting considerably in terms of jobs and incomes.

### employment potential

It was estimated towards the end of 1973 that US bases in Thailand provided some 15,000 jobs for local populations in the form of direct employment, while the "labour multiplier" accounted for another 50,000 peripheral jobs in service industries and trades, excluding the entertainment trade, which again brought in large earnings, thanks to the rest-and-recreation spending by US servicemen in Bangkok. These flows of income have considerably shrunk in the course of 1974 and in any case business has certainly slumped in Bangkok's night clubs and massage parlours as the United States started pulling out of its massive engagement in Vietnam. The bases in Thailand have also been directly affected by the steady withdrawals of US military person-

\* As we go to press it has been announced that Mr Seni Pramog has been elected by a voice vote — Ed.

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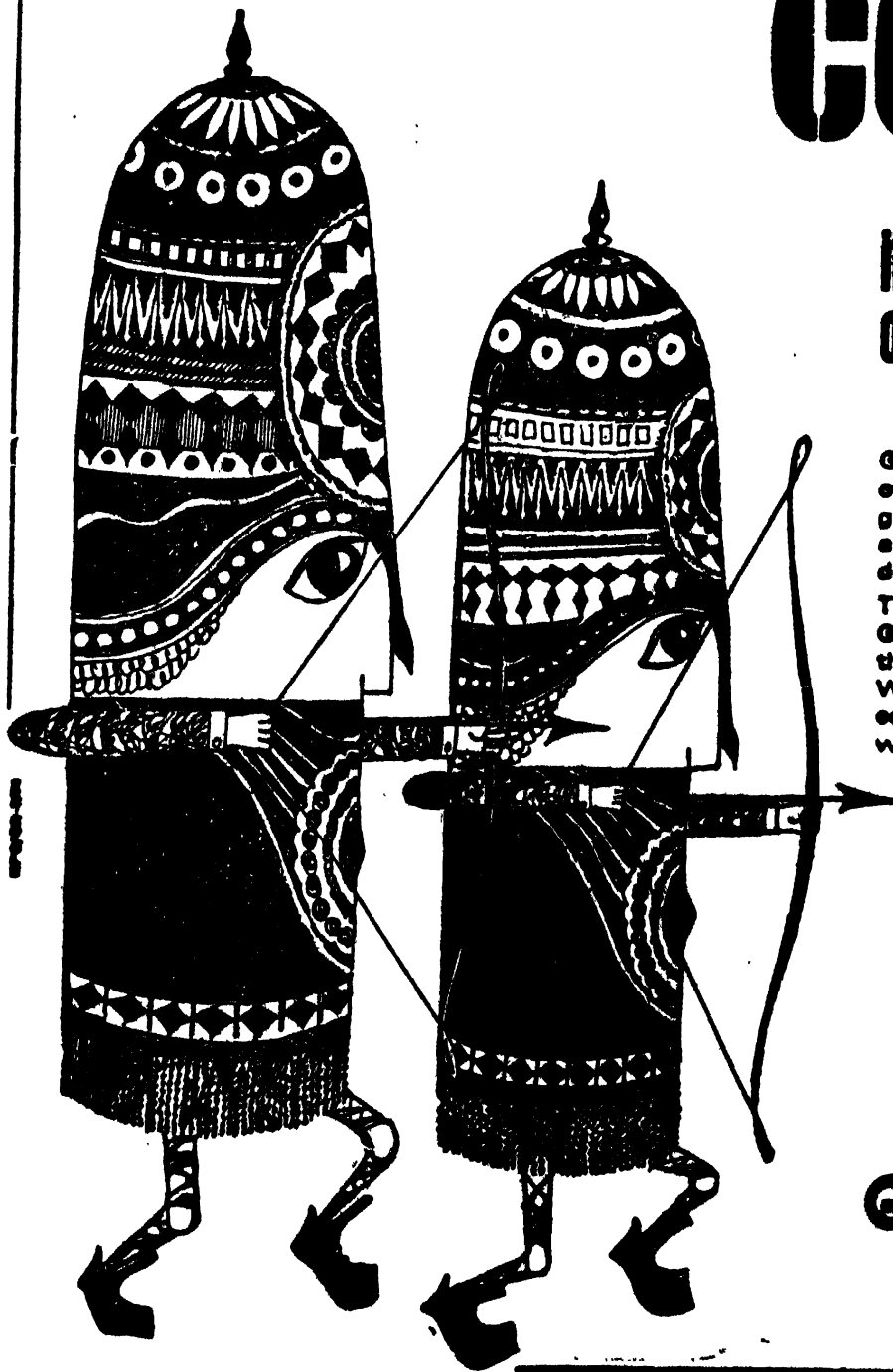
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nel from that country. It is interesting to note that, even in October 1973, when student activists rose against the Thanom regime, there was not much shouting of "Yankee, go home" and right now there seems to be little controversy over the remaining US presence among the political parties, with neither the right nor the left inclined to make an issue of it. If there is any coherent attitude at all towards this question, it is perhaps a general view that the Americans might as well stay on till some kind of peace comes to Thailand's strife-torn neighbours, thereby moderating some at least of the many political and military pressures impinging on its border areas.

### towards stability

It is of course only too true that sooner or later Thailand itself should assume the primary and the ultimate responsibility for working out a conjunction of political and military means which could bring about an end to the violence and lawlessness which are ravaging life and economy in many of the areas vital to its security and important for its agriculture and industry. This is probably the most urgent task facing any new government in Bangkok. Next in the order of priorities, perhaps, are certain foreign policy issues highly relevant to the progress of the economy. Sooner or later Thailand will have to cultivate gainful political and economic relations with China. Not that there is anything like a vacuum there even now. Although Bangkok has not yet established diplomatic relations with Peking, for quite some time now Thai governments have been taking a permissive view of traders making their own contacts. It is however being increasingly realized that more positive initiatives are necessary and have become possible.

In December last, Bangkok sent a high level trade mission to Peking for negotiating a firm agreement or establishing direct trade relations. This mission followed the National Assembly scrapping formally a 15-year-old ban on trading with China. One result of the mission was a decision to set up a state trading corporation in Thailand to deal with those countries which, like China, operate state trading organizations. It is expected that Thailand would be able to export jute, rubber and tin to China, which is already selling Thailand machinery, iron, raw silk and petroleum products. The agreement contemplates commercial transactions between the two countries on a cash or "parallel trade basis" rather than through barter agreements. Incidentally China had sold Thailand earlier in the year 50,000 tonnes of diesel oil at a rate described as a "friendship price." It has been indicated however that in future

Thailand will purchase China's petroleum products at prevailing world market levels. The China council for the promotion of international trade is expected to visit Bangkok in due course to finalize specific transactions and the prices and quantities of particular commodities to be traded between the two countries.

Quite naturally this move on the part of Thailand to start trading directly with China has kindled discussion on the prospects of the two countries establishing diplomatic relations with each other. With Thailand currently recognizing Taiwan, Bangkok is disposed to be cagey, at least for the time being. Questioned on this point Thailand's deputy minister of Commerce, Mr Prasong Sukhum, who led the trade mission to Peking, warily told journalists in Peking that "we have talked about trade and this will lead to other relations, but the pace will be to the liking and convenience of both sides." Now that Thailand has held a general election and a new government is about to assume power in Bangkok, it could be expected that the issue of Thailand establishing diplomatic ties with China will be activated.

While the new government in Bangkok will have to innovate in the matter of Thailand's relations with China, it will have to renovate its relations with Japan. Curiously enough, while there is little popular animosity against the Americans and instead there is a general readiness even to be grateful for the financial fallout of US bases and other aspects of American military presence in southeast Asia, there are strong undercurrents of uneasiness or even resentment against what seems to be regarded as neo-colonialist economic penetration by Japanese big business.

### cheap consumer goods

Although young Thais seem to revel in the Honda, while Thais of all ages and most descriptions seem to appreciate only too well consumer goodies such as Japanese cameras, transistors and watches, there seems to be a feeling that Japan is trying to sell too much too fast in the Thai market. It is no doubt true that, while Thailand has generally been enjoying a substantial surplus in its aggregate foreign trade, it has considerable payments deficit in relation to Japan. But then it is not at all clear that the Thai-Japanese trade has been to the disadvantage of Thailand. On the contrary, the standard of living of the Thai people, especially of the middle class, may have appreciably improved through the opportunities available to them for spending money incomes generated for instance

by American spending on low-priced Japanese consumer goods.

Nevertheless, even the authorities in Bangkok are known to have been somewhat resentful of Thailand's trade deficit with Japan. There was for instance an occasion late in 1972 when it was suspected that the authorities were not lacking in sympathy for a boycott of Japanese goods which the student activists had organized. Although agitations of this nature have not had any enduring impact on sale of Japanese goods in Thailand, they have certainly helped to keep alive certain deepening feelings of protest or resentment. It is indeed so very easy to recall the reception which the then prime minister of Japan, Mr Kakuei Tanaka, had when he visited Bangkok in January 1974 in the course of a goodwill tour of southeast Asian countries. Although the student demonstrators in Thailand's capital were mercifully much less violent or destructive than the agitators in Jakarta where Mr Tanaka went subsequently, they certainly made it clear that economic cooperation between their country and Japan would have to reckon with a number of emotional or even neurotic road blocks.

### bridging the gap

It is a favourite pastime of commentators on Japan's economic policies in southeast Asia to pontificate on the need for the Japanese to learn to communicate with the people of other cultures. Surely it would be equally relevant to point out that, if southeast Asian countries are indeed in earnest about benefiting from Japanese resources and expertise in industry and trade, their leadership should also assume some responsibility for bridging the cultural gap. In any case, the distribution of blame apart, the sad truth remains that the psychological climate for fruitful cooperation between Japan and several southeast Asian countries on the basis of mutual advantage remains to be generated through shared effort. Viewed in this context the rethinking that seems to be going on in Japan over investing in industries in Thailand is not difficult to understand.

A conspicuous expression of this rethinking was the decision taken by Mitsu and Mitsubishi in September last year to pull out of a deal worked out in May 1973 to build and operate a petrochemical complex about a hundred miles southeast of Bangkok. This project, which was to have cost US \$400 million, was to be a 50:50 joint venture with Thai partners. It aimed at producing plastics and detergents for the home market, which would have helped to save



Thailand some US \$ 45 million a year on imports. The Japanese firms abandoned the scheme on the ground that further investigation had shown that the local plastics market would not be able to support production on the scale contemplated. It was also stated that the proposed project had become less feasible economically since its cost estimates had escalated since the original estimates. Apart from these openly stated reasons the Japanese firms were also reported to have been influenced by the political uncertainty in Thailand and the lack of enthusiasm among at least some sections of the Thai people for a large Japanese industrial presence in that country. On the assumption that Thailand needs foreign know-how and investment, as so many countries in south or southeast Asia do, for supplementing domestic resources available for the growth and diversification of industry, it should certainly be one of the more important items on the agenda for a new government in Bangkok to enunciate consultations with the Japanese government and firms on an agreed programme of Thai-Japanese joint ventures.

### regional cooperation

Thailand has fairly close economic relations with neighbours such as Malaysia, Indonesia and the Philippines. As one of the important producers of rubber, copper, lumber and tin in the region it stands to gain by participating in a regional effort to coordinate production and export policies for these commodities. This is an area where its government has been encouragingly active. There is a ready demand for its rice in Malaysia while its growing manufacture of jute and kenaf sackings has been helped by the availability of a market in Indonesia. Textile, paper, sugar and the cement industries are among the country's growth industries. Japan imports sugar from Thailand; and recently the Siam Cement Company, a semi government-owned organization, signed a contract with Saudi Arabia to sell 336,000 tons of portland cement. This transaction is noteworthy for two reasons. In the first place it is a token of Thailand's interest in tapping the rich potential of the oil-rich states as markets for manufactured goods. Secondly the deal suggests that the Thai cement industry is becoming internationally competitive, thanks to a sound and expanding production base. The total output of cement this year is expected to be about 3.8 million tonnes, with domestic demand running at three million tonnes.

A few Indo-Thai joint ventures are now in operation and some more are in the process of implementation. The Indo-Thai Synthetics Company Limited has

been in production for some time and its output of spun viscose rayon yarn, polyester yarn and acetate/viscose yarn is popular in the domestic market and is also being exported to Indonesia, Australia, Afghanistan and some of the European countries. This firm is undertaking an expansion scheme for which there is satisfactory scope since the Japanese man-made fibre industry is being priced out of most of its markets in southeast Asia due to its high labour costs and increased expenditure on anti-pollution technology.

### search for oil

As in so many countries around the world, there is considerable excitement in Thailand over the possibility of oil discovery. Indeed prospects for Thailand drilling its own oil became bright when two discoveries were announced in the Gulf of Siam some time ago. Change of governments and political uncertainties seemed to have come in the way of these discoveries being followed up vigorously or a substantial oil exploration programme being mounted. Here again is a matter to which a new government will be expected to give its attention. If Thailand could establish its own production of oil, it could also help it to realize more easily its plans for a petrochemical industry and in particular a fertilizer industry.

The world boom in commodity and raw material prices has enabled Thailand, with its rich natural resources, to enjoy a certain measure of domestic prosperity as well as an enviable strength in balance of payments. However, with rubber prices falling and the export demand for lumber being affected by the slowing down in construction industries in many industrial countries due to recession, Thailand has need to address itself vigorously to tapping the potential of its agricultural and industrial economy for growth and diversification. This is all the more important because much of its rice and rubber growing areas are in border regions where chronic lawlessness and the depredations of marauding gangs are taking a heavy toll of rural production or productivity. Meanwhile in an attempt to promote stability and boost morale in the rural areas, the National Assembly has passed a Land Reform bill aiming at the provision of more land for the smaller farming families which are expected to increase in number from five million households to seven million in the next 10 years.

Thailand's population had been growing at an annual rate of about 3.1 per cent since 1960 and is now over 40 million. Its people are industrious and they are also mobile, with the younger generation

developing a taste for urban life or at least urban standards of living. There is thus a movement towards an industrial culture as is evidenced by the success of sophisticated industrial plants in sectors such as light engineering and electronics. There is, for instance, the National Thai Company, a Thai-Japanese joint venture, which has grown rapidly to employ 700 workers in its ten factories. These plants produce electric fans, dry batteries, storage batteries, radios, television sets and stereo sets and has found markets for its products in Europe, Japan and the United States.

It is clear that, if Thailand is to improve on its GNP *per capita* growth rate, which was of the order of 4.6 per cent in the period 1960-72, it will have to address itself seriously to well-defined objectives of economic development. Many of them will necessarily have to lie in the area of industrial expansion but it does not mean that Thailand's rich agricultural resources cannot participate substantially in the country's further economic development. On the contrary, there seems to be good scope for the expansion of soya bean production as well as the establishment of palm plantations. This could help also the promotion of more agro-based industries. Thailand already produces tropical fruit in rich abundance and variety. Fruit canning and processing could grow perhaps faster in the future than it had done in the past. For all this local initiative and enterprise must naturally provide a base but the economy certainly stands to gain a great deal by developing a liberal philosophy towards foreign enterprise and investments.

### planned development

As Thailand grows economically, the problems of regional development and planned urbanization come increasingly to the fore. Even as it is, one out of every four Thais lives in Bangkok. Part of the overcrowding of Bangkok is certainly to be ascribed to the lure of the GI dollar during the peak or the plateau of Rest and Recreation. Even otherwise there had always been and there will perhaps continue to be a steady stream of people from the rural areas in search of a livelihood. This stream has not always run clear. On the contrary it has been muddied by a traffic in young girls mostly from the northern villages. It is claimed that many of these young people are able to return to their parents in more or less good shape after a stint of domestic service in Bangkok households. Where a large number of them, however, seem to work for their dowry is under the far less reputable auspices of Bangkok's proliferating brothels.

Even after the worst is said or written

about the legacy of US military presence in east or southeast Asia, it should still be possible to mention something worse still which is that the GI dollar has vulgarized outrageously what has been described as the "make-no-bones sexuality" of simple communities in many east and southeast Asian lands. I should however add in fairness that not all of the commercialized vice in Thailand is to be attributed to the

free spending of the GIs. Within a few miles of Thailand's border with Malaysia a massive prostitution industry is reported to be functioning and catering mainly for customers from Malaysia intent on weekend pleasure. Meanwhile the ECAFE is building for itself a multistoreyed headquarters in Bangkok. Incidentally it is amazing that UN agencies, allegedly serving the poor of the world, should be so

greedy about housing themselves in sprawling expanses of glazed and concreted space. It is perhaps not unreasonable to suggest that the economic progress of Thailand is not to be judged by the obtrusive affluence of the ECAFE bureaucracy. On the contrary, a worthier indication of Thailand's economic progress in the future could be the measure by which sex in Bangkok ceases to be on tap.

(to be continued)

# Boost to European confidence

Vienna

SEVERAL SIGNIFICANT developments have combined to change the dreary face of west Europe's economics and to make it a trifle more promising. The west Europeans and the USA have begun their discussions on how best to prepare for direct collective negotiations with the major oil producers; the Common Market's Commission has agreed on a plan to protect any member state from paying an unfair share of the Market's running costs which may save Britain so significant a sum—some have spoken of £100 million a year, though this should be taken with reserve—that all but the most stubborn objectors may now agree to continue British membership on the improved terms. At the same time Mr Wilson's visit to the USA combined with a major British concession over projected petroleum revenue tax to companies (several basically American) with gas fields in the British sector of the North Sea and the announcement of the British four-year plan to cut the UK's mounting balance-of-payments deficit (£3.7 billion last year) have combined to revive the badly flagging American confidence in Britain's future. Simultaneously, France has been making a major go-it-alone effort with Egypt, following very successful commercial negotiations with Iran, to revive its former considerable influence in west Asia.

## overall effect

The overall effect, combined with a generally good showing in exchange rates by European currencies against the dollar, has been to give European confidence a needed shot in the arm. The 18 months since the four-fold increase in oil crude prices staggered them with a humiliating realisation of their economic vulnerability, the still steadily mounting inflation and unemployment and the need to live more carefully have their salutary aspects, but major industrial countries cannot thrive nor benefit world commerce generally in an expressively prolonged fit of depression and resignation. The even deeper dejection currently in the even more sensitive USA could have the

same cramping effect if prolonged: the current squabbling between the Congress and the President over economic measures of American self-help are a measure of that depression.

The discussions on oil-consumer co-operation in Paris to prepare for negotiations with the producers are not going easily. Washington is insisting on solidarity in financial and conservation planning and in promoting new energy sources as its condition for holding talks with the producers. It wants what would be in effect a minimum import price for energy to ensure that necessarily large investments in alternative sources will not be jeopardized. The French consider the Americans want to keep energy prices too high and the West Germans have clashed with the Americans on how to raise the money for the huge 25 billion dollar mutual aid fund of the consumer nations to defray prospective oil payments deficits. West Germany considers the American plan is too inflationary and that the US plan for a financial pool as a source of loans to industrial countries in deficit for oil payments would be merely generating new money and blowing up already dangerous inflation in the major industrial states. W. Germany would prefer the Bank for Industrial Settlements, acting as agent for the industrial nations, to borrow the necessary funds in the market place. The American plan put forward by Dr. Kissinger would, in the view of W. German bankers, involve reshuffling industrial countries' reserves and that it would help very little if at all, in dealing with the excessive supply of "petrodollars."

Whatever form the scheme takes eventually it is unlikely to come into operation before late spring since it will require ratification by national parliaments. The oil producers' attitude to the schemes for re-cycling their "petrodollars" is that very few had shown themselves ready to admit that the oil producing countries should play a greater part in the international monetary system. The government most obdurately opposed to this

idea is the American: the French and W. Germans have shown themselves much more flexible, although the W. Germans have taken nervous precautions against further heavy oil-producer investment in their most sensitive industries. The French and the British have been busy fixing industrial cooperative deals with Iran and Egypt and British financial agencies are arranging to help establish an international capital market in Tehran.

## excessively anxious

In general, the Europeans consider the Americans are excessively anxious about the petrodollars. Like the Euro-dollar, which became a financial phenomenon in the last decade, the petrodollar is accepted as having come to stay and the wise, think the Europeans, will work out ways by trial and error of how to work with it and not how to cramp and exclude it. The American trades unions, the last word in American protectionism, have revealed the transatlantic mind by recommending exclusion; the European, partly because more dependent on West Asia for industrial energy and partly because he has for long been accustomed to doing business there, is far more flexible and cooperative. This month's summit meeting of the principal oil exporting countries to fix oil prices geared to inflation rates will be significant not only to oil revenue earners but in influencing the reactions of the biggest oil buyers in west Europe whose own oil is likely to begin flowing significantly this year. The first oil from the British Forties Field is expected to be landed by October and the Norwegians are expecting sizeable production by next year.

A fall-off in West Asian prosperity would, in any case, not suit the west Europeans at all. Their long-term industrial supply and cooperation agreements with the oil sheikhdoms, Iran and Saudi Arabia look to continued prosperity and ample funds in those areas. Britain, France and West Germany are equally interested in seeking their West Asian cooperators continue to flourish. The

bankers' talk of a drying-up of oil-earners' funds may be regarded as something of a gimmick to induce the Americans to less aggressiveness in the Paris talks over the 25 billion dollar fund which Europe has never liked and agreed to discuss principally with the idea of either cutting it down in volume or diverting to more orthodox methods of financing.

What worries west Europe now more than the oil charges and the volume of petrodollars is the continuing instability of its own exchange rates and the politics of exchange rate intervention. These

policies may undergo changes fairly soon to counter excessive appreciation of strong currencies. Some countries may also cease to support weak currencies as the need arises to fight unemployment and recession rather than inflation.

West German unemployment is now well over the million mark at 1,150,000 (some 400,000 more than in Britain) and only the luckier small countries are now free of worrying rising worklessness. Under the present mixed system of exchange rate intervention some governments control their currency's rate strictly

while others let rates float relatively in line with market forces. In this way the mark, the guilder and the Swiss and Belgian francs have been allowed to rise to help reduce domestic inflation. As emphasis shifts to fighting unemployment, nations with strong currencies can be expected to counter excessive rises while deficit countries may allow their exchange rates to depreciate. If this occurs there may be a fall in exchange rates which could, affect price changes for oil supplies and make funds set up to counter payment difficulties less effective.

# Strategy in foreign trade S.P. Chopra

"INDIA CAN expect to expand its trade with the USA in the long-run but for this purpose many steps will have to be taken."

This was stated by Mr Peter B. Kenen, professor of Economics and International Finance, Princeton University, in an exclusive interview in New Delhi.

Elaborating his thesis, Prof Kenen said that one characteristic of the US market was its enormous size and the tendency of the American sales' outlets to expect quick deliveries conforming to rigorous quality standards. They got very upset when they did not get what they had ordered. Naturally an exporter not used to supplying large quantities of goods of high quality and rigorous specifications was unable to face this challenge. In India where the emphasis was on encouraging the small-scale producer to export, a way will have to be found for overcoming this difficulty.

Prof. Kenen suggested the formation of cooperatives or consortia of exporters among the small-scale manufacturers. Alternatively, the priorities in regard to exports, he said, will need to be changed so as to encourage increasingly the large-scale manufacturers to tap the US market.

Fortunately, thinking in the government of India is veering round to providing extensive assistance to exporting industries, both big and small, and making basic changes in its industrial policy to stimulate production for exports. The setting up of the Santa Cruz Electronics Export Processing Zone (SCEEPZ) near Bombay where licences for manufacture have been issued to industrial units, some of which were debarred from producing for the home market, shows that an all-out effort is being made to push up exports. And for this purpose, the distinction between the small-scale and large-scale manufacturers has been practically eliminated. While all the production at SCEEPZ was reserved for exports, many

new manufacturing licences were being issued in this country with the explicit understanding to export a part or whole of the output.

Prof. Kenen emphasised the importance of flexibility in meeting the demands of the US market. He was of the view that administrative controls tended to stifle the growth of export trade. He recommended simplification of import control so that Indian firms may respond flexibly to export opportunities.

## joint ventures

Prof Kenen also recommended the establishment of joint ventures for export production. He added, "I am not saying India should welcome multinationals with open arms. I am not saying that multinationals have always behaved themselves." He thought that their cooperation in increased trade could be enormously helpful because they themselves could be the marketing outlets. And also, they themselves could be the channel of communication.

The present recession in the USA, according to Prof Kenen, was linked to the hike in oil prices, though not caused by it. The American economists had been predicting this recession for some time on the basis of economic developments within their country, especially the stringent financial and monetary policies pursued in order to curb inflation. But there was little chance of the recession developing into a depression of the kind witnessed in the twenties and the thirties of the present century. However, the present slowdown or recession in the USA and Europe will inescapably have an unfavourable impact on trade between the developed and the developing countries including India. This may turn out as a temporary phenomenon and production may once again pick up both in the USA and Europe if the situation were handled intelligently. It all depen-

ded upon the attitude of the deficit countries. If they became inward-looking and adopted restricted import policies, the world trade would shrink and severely retard the growth in trade of the developing nations.

Prof. Kenen emphasised that high prices of oil were not likely to prevail for ever. If the USA adopted policies designed to conserve the use of oil and activated its energy policies, and other countries also altered their policies and the discoveries of oil continued at the present rate, the world may become surplus in oil and the OPEC nations may find it hard to maintain the present high oil policies. It was a typical history of cartel, he added. When the differences in the outlooks of the OPEC nations exerted themselves within the next two to three years and the supplies of oil exceeded demand, there would be disunity in regard to the cut in production. And no wonder that prices might tumble once again. "I do not think that we should base all our economic strategy on the assumption that \$ 10.35 a barrel of oil is a price which will be with us for the next 50 years", said Prof. Kenen. And with the downfall in the price of oil and also of other commodities, the world markets may certainly face uncertainty.

Describing the importance of outward-looking strategy for developing countries, Prof Kenen said that continent-like countries such as India and Brazil could adopt inward-looking policies so as to encourage self-reliance and could still survive but a majority of the developing countries had to rely on export promotion for meeting their needs. In the present crisis, even countries of the size of India had to adopt outward looking policies so as to increase export trade. The implication of the oil crisis was to adopt a survival strategy i.e. to adopt a policy whereby exports could be pushed up so as to earn foreign exchange for buying food, oil, fertilisers and other essential raw materials.

## The other day, on an IA

flight from Bombay to New Delhi, I thought that the passenger next to me was perhaps in low spirits. Intending to cheer her up, I drew her attention to a news item in the papers that morning. It was about Mrs Margaret Thatcher's election as the leader of the Conservative party in the UK. My fellow-passenger's response was rather interesting. She said that she cared little for politics and even less for women in politics. I asked her whether this was because of our experience of Indian politics as well as of women in Indian politics. She said that this could be the case but not the whole case. The aversion she had expressed was also of a general nature.

Since, in this case, the particular happened to interest me more than the universal, I asked my fellow passenger what it was that distressed or repelled her, first, in Indian politics and, secondly, in women in Indian politics. She replied that Indian politics was too large a subject to be discussed within the brief time we had before the plane landed at Palam airport, but she would certainly like to express herself on women or, rather, the one woman in Indian politics.

She then went on to talk about a revealing report in *The Times of India* last week. It had said that, when Mrs Gandhi recently went to Bombay to inaugurate the YWCA centenary celebrations, the state government had improvised a conspiratorial back entrance for her so that she could escape being confronted by a group of women demonstrators who, the report said, had planned a hot reception for her.

My fellow-passenger, who had become quite animated by the time she came to comment on this disgraceful manoeuvre — as she termed it — maintained that, had Jawaharlal Nehru been involved in this incident, he would never have put up with it. I ventured to suggest that, while it might be permissible to deduce from this happening that the father and the daughter were clear-

ly birds of a different feather, it would be far-fetched to infer that women in politics, as a class, were necessarily of a lower order of human beings or even politicians than men in politics, as a class — to which the flattering response I received was, "You men are all hypocrites."

## This reminds me of a

conversation I had quite some years ago with another woman (who attends to the home sanitation at my place). It was in that hectic period preceding Mrs Gandhi's mystic decision that the only proper way for legislators to elect a president for our republic was to vote according to their conscience. At that time it was being said that Mrs Gandhi had suggested that the working committee might perhaps agree on Mr Jagjivan Ram as the party candidate for the office. I asked the woman who works at my place whether it would not be a great thing were Mr Jagjivan Ram indeed to become president. Her reply was in two parts, both of which were interesting in their respective ways. She said that she did not think that it would be a big thing for Mr Jagjivan Ram if he were chosen for that office and she added that, whether Mr Jagjivan Ram became president or not, she and the people of her community would have to continue to earn a living by cleaning lavatories, dredging sewers or sweeping streets.

## All this makes me think

that, apart from women being good for politics or not, or politics being good for women or not, womankind is essentially a race of practical beings. In contrast, men tend to be sloppy in their thinking on many matters. Take, for instance, the comments or cartoons that are appearing in the newspapers in the last few days. It has been put out, for instance, that Mrs Margaret Thatcher's election is somehow significant for the "International Women's Year" which, incidentally, is yet another UN racket, like the "International Population Year" of 1974

or the "Development Decade" of infamous memory. If any of us in this country is really serious about women's status improving during this year, there are certainly lots of things to be said or done other than spouting nonsense about the significance of women prime ministers, actual or potential. For instance, it is high time that legalized abortion had become a facility available reasonably freely to all those women who need it or seek it.

## Not very long ago, Dr

Karan Singh invited some of us, local journalists, to lunch at Ranjit Hotel and asked us for our views on how the population control campaign could be stimulated or otherwise improved upon. I must confess that, although the minister was patently serious, the numerous courses of rich Kashmiri fare that were being served kept the teeth chewing so busily that the tongues had little chance of wagging. In deferred payment for that food for the body, I may offer the Health minister a morsel of food for thought. A few days ago there appeared in the newspapers an advertisement by the Giants Group of Juhu, Bombay, announcing the opening of a new abortion and family planning centre in a suburb of that city where this organization is already running two such centres in two other localities. The advertisement made the following valuable points:

- (a) Abortion is a woman's right — it does not need the husband's permission;
- (b) Abortion is legal up to 20 weeks and very safe up to 10 weeks; and
- (c) Abortion can be performed for any of the following reasons: unwanted pregnancy; forced pregnancy; contraceptive failure; poor health; defective child, or physical or mental harm.

May I suggest to Dr Karan Singh that the priority for the family planning department of his ministry in the current year should be the maximum possible encouragement of voluntary or semi-official associations which are organizing or are willing to organize networks of modern abortion centres in cities, towns or, perhaps, rural areas? It is to be assumed of course that these centres could and would simultaneously propagate sterilization of persons of either sex who are willing or can be persuaded to practise positive birth control in as effective and simple a manner as possible.



# MOVING FINGER

# TRADE WINDS

## Indo-Soviet Cooperation

A SOVIET team of experts headed by the Heavy Industry minister, Mr Goldin has had detailed discussions with the union minister for Industry Mr T. A. Pai to identify the areas where the collaborations in third countries can be started. The collaborations will not be confined only to Soviet-aided units in India, but will cover other public sector plants, where this country has substantial idle capacities. It has been found that the part of the equipment needed by the Soviet Union to set up some important units in several developing countries can be provided by India. Whereas capacities in some of these areas are substantially under-utilised, industrial capacities for the corresponding equipment in the USSR are fully booked. The proposed collaboration in third countries will thus help both countries.

The Heavy Engineering Corporation and the Hindustan Machine Tools will play an important part in the proposed third country collaborations. The Soviet minister's visit to the important Indian units has led to the optimism that the proposed collaborations can start soon. Experts of two countries will work on the details of the available capacities.

## National Seeds Project

A Rs 240-crore National Seeds Project aimed at complete self-reliance in seeds, an important input in modern agriculture, is to be launched soon by the union Agriculture ministry with the active participation of the state governments, agricultural universities and other related agencies.

World Bank will extend 50 per cent financial assistance to the project and its main executing agency would be the National Seeds Corporation (NSC), according to Dr D.P. Singh, the newly appointed joint chairman of the NSC and the State Farms Corporation of India (SFCI).

The proposed seeds corporations at state levels would be in charge of multiplying the certified seeds and distributing them to farmers. A high-level team headed by Dr Singh to assist the state governments is at an advanced stage in finalising the state seeds corporations and the entire project would be scrutinised by the joint working team of the World Bank and the government of India by April next. Besides the NSC, SFCI and the state governments, the Indian Council of Agricultural Research, agricultural universities, agro-industries corporations, Agricultural Refinance Corporation, apex cooperatives and scheduled banks also would participate in the national seeds project.

## Company Deposits

Rules notified by the government for acceptance by companies of deposits from the public have come into force immediately according to a press note issued by the ministry of Law, Justice and Company Affairs. The press note pointed out that invitation for deposits or acceptance of deposits by the companies can now be only according to these rules, under Section 58(A) of the Companies Act, which were published in a gazette extraordinary on February 3. Any infringement of these rules on their part shall make them

liable to penal action as prescribed in these rules, as well as, under Section 58 A of the Companies Act. Any existing deposits, accepted in violation of the Reserve Bank of India, the press note said, should now be repaid in full by the companies on or before April 1, 1975. Failing this, the company concerned shall be punishable with fine which shall not be less than twice the amount in relation to which repayment has not been made. The rule apply to companies which are not banking companies and or financial companies. (The details of this press note appear in Records and Statistics section of this issue on page 372).

## Credit to Priority Sectors

There has been an increase of over 36 per cent in the number of borrowal accounts of public sector banks to the priority sector industries from June, 1973 to June, 1974. The borrowal accounts have increased from 19.22 lakhs to 26.16 lakhs. The agriculture sector accounts for five lakhs of the seven lakh additional accounts i.e. a little over 70 per cent. Apart from agriculture, the priority sector industries include small-scale industry, road transport, retail trade and small business, professionals and self-employed persons. The advances covering these accounts have gone up by 30 per cent from Rs 1,292 crores at the end of June, 1973 to Rs 1,688 crores at the end of June 1974. The outstanding credit to the priority sector in June, 1969, was Rs 441 crores covering 26 lakh borrowal accounts.

## West German Bank Rate

The West German Bank Rate has been reduced from six per cent to 5.5 per cent from February 6, 1975. The move was made by the Board of the Bundesbank. Mr. Karl Klasen, the Bank's president, stated that advances against security were also cut by 0.5 per cent to 7.5 per cent.

## French Credit

France has extended a fresh credit of Rs 57.83 crores

to India for 1975-76. The assistance would be 15 per cent more than the credit of Rs 50.27 crores received in the current year. France is the first member of the Aid India Consortium to conclude a development assistance agreement for 1975-76. The protocol for the agreement was signed in Paris recently.

## Iron Ore Export

The Minerals and Metals Trading Corporation has formulated plans for export of 17.7 million tonnes of iron-ore in the next financial year. This represents an increase of 2.7 million tonnes over the target of 15 million tonnes fixed for the current year. The export plan for 1975-76 is said to be tentative and a firm indication will become available by the end of March. A precise target would then be keeping in view all the factors, including the performance in 1974-75. Of the 17.7 million tonnes, the MMTC has planned to sell iron-ore of the order of 6.8 million tonnes through Vishakhapatnam port followed by 3.4 million tonnes through Madras. Goa will handle 1.08 million tonnes, Karwar Belikeri 670,000 tonnes and Haldia 600,000 tonnes.

Because of various factors, mainly the railway strike in April-May, the MMTC has not been able to maintain the anticipated levels of iron-ore export this year. Exports up to January, have totalled about 8.5 million tonnes. Although all-out efforts are being made by the MMTC to increase export during February and March, there may be still a shortfall of 3 to 4 million tonnes. The total iron-ore exports this year are likely to be 11 to 12 million tonnes against the target of 15 million tonnes which was subsequently revised to 13 million tonnes. Thus for the third successive year, the corporation will not be attaining the targets fixed for iron-ore exports.

## Commodity Stocks

An eleven billion dollars multi-commodity buffer stock

to back 18-key primary products in world trade has been proposed by the United Nations Conference on Trade and Development.

Management of stocks is envisaged in the hands of an international agency, backed by a common fund supported by importing and exporting countries, with additional financial support from oil producers and international financial institutions.

## HAL

The Hindustan Aeronautics Limited, a public sector under taking under the ministry of Defence, has doubled its profits during 1973-74. The net profit being Rs 9.49 crores against Rs 4.76 crores during the previous year. The value of production increased to Rs 98.10 crores, showing a 24 per cent rise. Sales went up by 15 per cent touching the Rs 85-crore mark. The undertaking has declared two per cent dividend on the paid up equity capital of Rs 56.91 crores. Sales of MIG complex of the undertaking during the year rose to Rs 42.4 crores and that of the Bangalore complex to Rs 37.37 crores, registering an increase of about Rs 6 crores each. Sales of Kanpur division may show a substantial increase when the seven HS-748 passenger aircraft are delivered to the Indian Airlines. The design wing of the company has successfully designed and developed the agricultural aircraft Basant, the jet trainers Kiran, Marut and an improved version of the famous Gnat known as Ajit.

## Galbraith on Socialism

Prof. John Kenneth Galbraith, economist and a former US Ambassador to India recently underlined the need for the developing countries to take into account the fact of administrative capabilities in any programme of socialisation. Delivering the first lecture in the Ajit Bhagat memorial lecture series at Ahmedabad, Prof. Galbraith said that the single feature

of the developing countries with low income was that public administration resources were scarce. Where public ownership is concerned, public administration is obviously a thing of importance, he asserted. Any new public action in developing countries such as India added a new burden to an already well-

burdened administrative machine which did not expand easily and competently. All such action should be considered in relation to the conservation of administrative resources.

Prof. Galbraith observed that there was reason to believe that socialism was a

more manageable thing in the developed countries than in the under-developed nations. The fault in the social design was that the affluent countries had the resources for socialisation, which they did not need or would not use, while these were denied to the developing nations. Socialisation could come more easily after

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a certain stage of economic development. Prof. Galbraith made an exception about China in the argument that socialisation was more suited to developed countries. China, he said, had an exceptional capacity for organisation. While pleading for a definite but limited action in regard to socialisation in the developing countries, it was easy to manage a few large corporations under public ownership than to manage small and numerous enterprises. Agriculture and retail trade were better left in the private hand.

### Take-over of Banks in Sri Lanka

All foreign banks in Sri Lanka will be nationalised by the middle of this year for which necessary legislations are being drafted. This was announced by the Sri Lanka Finance minister, Mr N.M. Perera, while opening a branch of the state-owned Bank of Ceylon at Jaffna in the Northern Province. Nationalisation of foreign banks was one of the election pledges of the ruling United Front comprising prime minister Sirimavo Bandaranaike's Freedom Party, Trotskyist and Communists. Three Indian banks — Indian Bank, Indian Overseas Banks and State Bank of India—have branches in Sri Lanka.

### Accountants' Meet

President Fakhruddin Ali Ahmed recently called upon accountants to evolve a code of conduct enjoining strict adherence to a set of ethical standards. Such a self-imposed system of discipline would create confidence and faith of the general public in the profession. Mr Ahmed was inaugurating a Commonwealth Conference of Accountants under the auspices of the Institute of Chartered Accountants of India as part of its silver jubilee celebrations. Some 1,300 delegates, including 60 from 14 foreign countries participated in the conference. Calling for a reappraisal of the role of accountancy profession, the President said new management

techniques, were being evolved progressively in developing countries to hasten the pace of development. The role of an accountant, crucial for management system, was therefore assuming increasing importance. He stated that rising costs, increasing overhead charges, competition, complicated fiscal laws, administrative difficulties have created new situations but any dynamic and growing profession must be ready to meet the challenges of the times. Mr Ahmed noted that to serve the most complex and technically sophisticated unit of modern industry, the accountant of tomorrow has to attain the ability required for increasing productivity, controlling costs and evaluating efficiency. He expressed the hope that the members both in the accountancy profession and in industry would equip themselves well to be able to draw up effective system and apply it efficiently to the satisfaction of all concerned.

### Wood-based Panels

The developing countries, which possess more than half the world's forest resources, account for only nine per cent of the output of wood. Dr A.H. Boerma, FAO Director-General, pointed to this lack of balance in wood production while addressing the inaugural session of the third World Consultation on Wood-based Panels in New Delhi recently. He called for vigorous expansion of the panel industry in developing countries as it required a shift from exports of logwood to more local processing, thus generating more income. The 11 day world consultation which is being organised by the FAO and the government of India, is being attended by more than 700 delegates and observers from about 60 countries. It will discuss important questions of supply and demand of wood as a raw material, the international wood panel trade, technical progress in wood panel technology and of the economies of investment and manufacture. More than 140 scientific papers have been submitted on recent developments in the fast-expanding fields of ply-

wood, fibre-board and particle board production and utilisation.

Inaugurating the conference, President Fakhruddin Ali Ahmed stressed the need for technology suited to local conditions to be evolved in India and other developing countries for manufacturing wood-based panel products at costs within the reach of the common man.

### Conference on Power

With the commissioning of the third unit of 100 MW at Badarpur shortly, the Faridabad station stabilising and its second unit and the Bhatinda second unit expected to be commissioned in October and August respectively, together with the good snowfall this winter augur well for the inflows to Bhakra, the union Energy minister, Mr K.C. Pant, forecast a comfortable power position in Delhi, Haryana and Punjab in the next few months. Inaugurating a conference on "Power for Growth" organised by the Punjab, Haryana and Delhi Chamber of Commerce and Industry in New Delhi, Mr Pant said that as a result of a number of measures taken by the ministry, the thermal energy availability in Delhi, Punjab and Haryana had significantly increased. Energy production in Delhi in particular had almost increased by 25 per cent this year. Haryana was able to have an additional 260 million units — a 60 per cent increase — in its thermal energy availability in 1974 as compared to 1973, while in the last four months of 1974, Punjab had utilised 119 million more units of thermal energy.

While it could be expected that this would have eased the shortage of power, unfortunately the water inflows into the Bhakra reservoir in this year had been the lowest in its entire history, the generation being only eight million units a day, compared to about 16 million units about this time last year. A generation of about 12 to 13 million units a day at least could be normally expected. Energy was also expected from

the Dehar power station from September 1976. All efforts were being made to commission the second unit of the Rajasthan Atomic Power Plant. A special allocation of aluminium had been made to Rajasthan State Electricity Board to enable them get new conductors manufactured to complete the Jaipur-Badarpur line.

Mr Pant mentioned that the capacity utilisation of the Indraprastha power station in Delhi was 68 per cent. In Uttar Pradesh, the thermal stations were working at 62 per cent capacity, in Andhra Pradesh 61 per cent, in Gujarat 65 per cent, and in Madhya Pradesh 57 per cent. DVC had improved its capacity utilisation almost 40 per cent in the last five months as compared to the earlier period. Mr Pant stressed the need for planning programmes of power on regional basis and the strengthening of regional power grids.

### Problems of Khandsari

More than a thousand Khandsari units in Uttar Pradesh have stopped crushing sugarcane because the Uttar Pradesh government has imposed a levy of Rs 200 per quintal on one-third of total output of Khandsari. The levy on khandsari manufacturers resulting in closure of units will be instrumental in a reduction in employment opportunities for agricultural labour. The Western UP Khandsari Manufacturers Association is afraid that as a result of the present stalemate, all the sugarcane available in the state may not be crushed and some of it might have to be even burnt in the later part of the season. Besides resulting in national wastage of this valuable commodity, it will also bring down khandsari production by as much as 600,000 tonnes.

The economics of the Khandsari units in Uttar Pradesh revolves round the prices prevailing for sugarcane which range between Rs 12 and Rs 13 a quintal. Based on the prices of the raw material, the



cost of manufacture work, on an average, at Rs 350 a quintal. The Khandsari industry is not allowed to obtain sugarcane from areas which are earmarked for sugar factories. In other words, the Khandsari manufacture is in no way a drag on the sugar mill industry.

### New Service by Syndicate Bank

Syndicate Bank is now coming out with a Tourist Information and Guide Service to its customer-tourists. To begin with, the bank will introduce this service in Karnataka shortly. According to the scheme, qualified officer-guides would be placed in eight centres namely, Bangalore, Mysore, Hassan, Hospet, Belgaum, Bijapur, Gokarn and Mangalore where they have branches. The tourist cells attached to the branches would not only offer tourist information and the services of a guide but also book accomodation and make travel arrangements for customers when informed in advance.

### Award for Chemicals Exports

The Indian Chemical Manufacturers' Association has given the export award for chemical products to Atul Products of Gujarat for maintaining its progress in the matter of exporting dyestuff and dye intermediates.

The ICMA has given Sir P.C. Ray award for development of indigenous technology to two organisations: Harihar Polyfibers — a division of Gwalior Rayon and Silk Manufacturing (Wvg.) Co. at Harihar in Karnataka, and Deepak Nitrite Ltd of Baroda. Harihar Polyfibers has developed, on a commercial scale, rayon grade filament pulp from hybrid eucalyptus grown in Karnataka. Deepak Nitrite has made significant contribution to the indidigenous production of sodium nitrite.

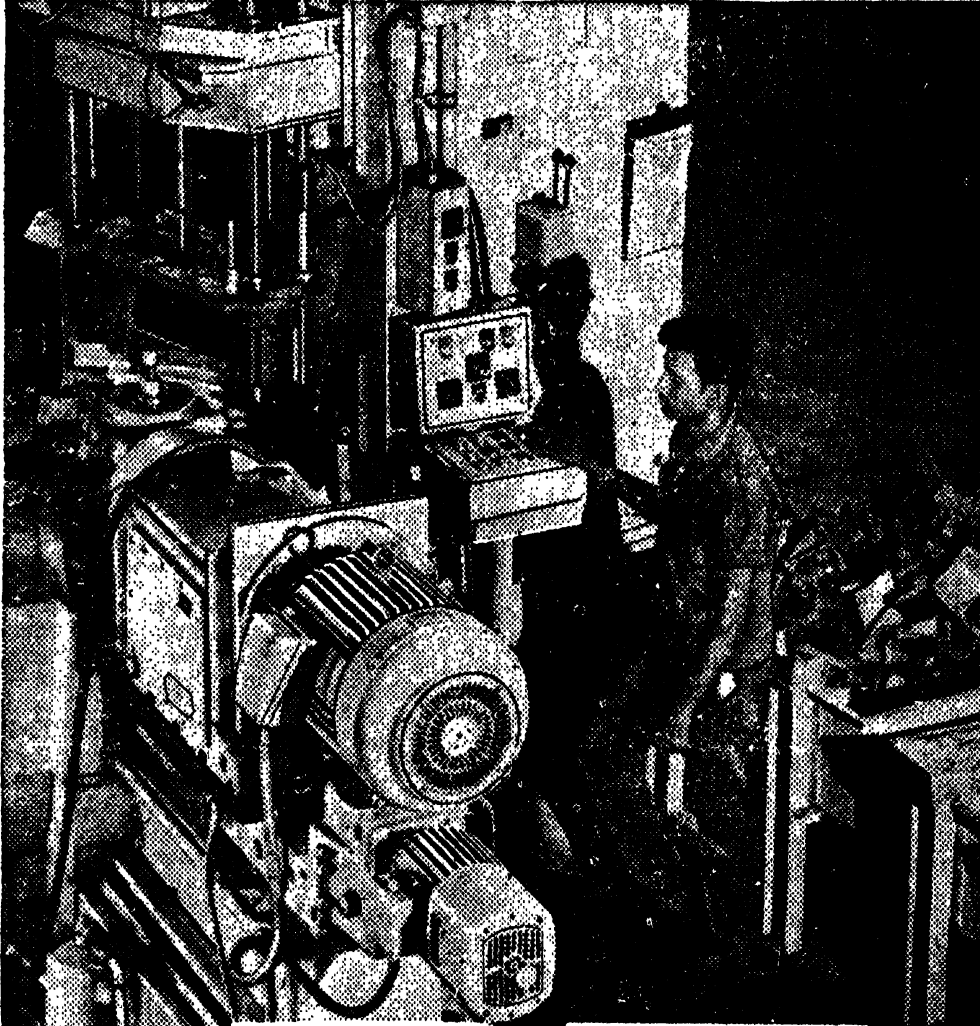
### Names in the News

Mr R. C. Maheshwari,

general manager, TEXMACO, has become the chairman of Engineering Export Promotion Council. Mr Maheshwari chairs several important divisions in some of the leading industrial associations and

councils such as railway wagons & components division of the Association of Indian Engineering Industry, raw materials sub-committee of Association of Indian Engineering Industry, and Iron

& Steel Committee of EEPC. He has also served on several high-power task forces such as Reserve Bank's study group for bank credit policy, Planning Commission's task force for textile machinery industry.



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# COMPANY AFFAIRS

## Plea for Dividend Amendment

OF LATE the government has been feeling increasingly uneasy over the fall in new issue activity and has been considering measures to revive the capital market. It is learnt that the finance ministry has completed recently an analysis of the impact of the ordinance on dividend payments and it has come to the conclusion that it is the low return on equity that has caused the slump in prices and scared away prospective entrepreneurs and underwriters of new issues. Meanwhile the Bombay Shareholders' Association has urged the union Finance Minister to amend the dividend legislation so as to mitigate its effects on the capital market. In a memorandum the Association has stated that equity values have gone down by about 30 per cent and in terms of money the book loss to the investors would be about Rs 700 crores. Further it is said that as a result of dividend curbs projects involving an aggregate capital outlay of about Rs 200 crores are held in abeyance.

The Association has suggested that the companies may be allowed to declare dividends up to 15 per cent of the net worth of their equity or average payment of the last two years. It has also suggested that the wealth tax exemption for the initial issues for the first five years be reintroduced and the incentive of development rebate be continued or some other alternative incentive be introduced for fresh investment in plant and machinery.

## Sudarsan Trading

Sudarsan Trading Company has maintained its uninter-

ted progress during 1973-74. The segregation of the chit business from other activities has proved to be a great success. The fully owned subsidiary, Sudarsan Chits (India) Ltd, which had been set up for this purpose, has helped to streamline the administrative set up of the organisation and also to reduce the operational expenses to a certain extent. The total business secured by this company during the year touched new records and this is indeed a commendable performance when considered against the backdrop of general economic distress experienced during the year under review. Of late Sudarsan Group has been diversifying its activities into the fields of industry, agriculture, exports and hoteliering. Sudarsan International, for instance, is engaged in setting a luxury hotel at Madras. The first phase of the hotel project has already been commissioned and it has earned within a short span of a year a name for its comfortability, efficiency and cuisine. On completion of its second and third phases, Sudarsan International is certain to find a place among the top hoteliering establishments of the country. These were highlighted by the Chairman, Mr D.C. Misra while addressing the annual general meeting of the company.

The Sudarsan Group's other units also have reported satisfactory progress during the year under review. Despite scarcity of raw materials and steep rise in costs of inputs, Standard Furniture continued to register notable rise in sales and profits. Steps are being taken to enhance the production capacity of the Standard Furniture at Chalakudy by putting up a modern

jet drier. The government of Kerala has already been approached to sanction increased quantity of timber in order to run the plant to full capacity. The arrangement by which the Tile Unit of Feroke Tile Works has been leased out continues to function smoothly. The unit at Rajahmundry is being transferred to Sudarsan Clay products Ltd, a wholly-owned subsidiary of the company. Improved performance by the Rajahmundry unit has started yielding profits. The pipe factory at Feroke, the lease arrangements of which were terminated earlier consequent to labour unrest faced by the then lessee, is now almost ready for operation.

## Precision Bearings

The directors of Precision Bearings India Ltd., have stepped up the equity dividend for the year ended August 31, 1974 to 12 per cent from 10 per cent declared for 1972-73. Its sales during the year recorded a sharp rise to Rs 4.27 crores from Rs 3.25 crores while gross profit recorded a smart increase to Rs 114.11 lakhs from Rs 81.59 lakhs in 1972-73. Out of the gross profit the directors have provided a sum of Rs 27.32 lakhs to depreciation reserve, Rs 6.51 lakhs to development rebate reserve and Rs 41.65 lakhs for taxation as against Rs 20.76 lakhs, Rs 15 lakhs and Rs 15.45 lakhs provided respectively in 1972-73. This leaves a substantially higher net profit of Rs 38.63 lakhs as compared to Rs 30.38 lakhs in the earlier year. The company is seeking permission from the Controller of Capital Issues for issuing rights shares. Although the application has been made to this effect no decision has been taken so far. During the year it has comp-

leted the major expansion scheme and resultant benefits have also been reaped. Its spherical roller bearing project has also made good progress.

## Uni Abex Alloy

Uni Abex Alloy Products has started production from May 1974 and has made its first dispatches in September. The company has secured firm orders for over Rs 68 lakhs and letters of intent for over Rs 1.38 crores. More orders are under negotiation. Meanwhile, the project cost has escalated to Rs 2.62 crores from the original estimate of Rs 2 crores. To meet this over-run in cost as also for installing certain imported balancing equipment, the company proposes to offer six lakhs equity rights shares of Rs 10 each for cash at par to the existing shareholders on a pro-rata basis.

## Indian Oxygen

Indian Oxygen Ltd has entered into a technical collaboration agreement with Saccab SPA, Milan, for the manufacture of oxygen tents in the country. The government has approved the scheme subject to an export obligation for a period of five-years. The company has agreed to fulfil this condition. The company's other collaboration agreement with Cryoplants Ltd London, for acquiring technical know-how for the manufacture of low pressure tonnage, air separation plants and nitrogen generators is still under the consideration of the government. It has been the endeavour of the company to manufacture new products of sophisticated technology.

During the year ended September 30, 1974 the company has achieved some measure of success in this direction. The company introduced the Cheetah cutting machine, MIG 400 semi-automatic welding set and Cobalarc electrodes. Moreover certain projects for diversification and development of the company's activities are under detailed study. This study has been completed in close collaboration with specialists from BOC

and the company's application for an industrial licence is now under the consideration of the government. The project, to be located in a notified backward area, is quite unconnected with the current range of the company's manufacture, involves the use of sophisticated technology and is heavily export-oriented with high employment potential. Its implementation will bring about a considerable dilution in foreign equity holding in the company.

The company's turnover during 1973-74 at Rs 32.57 crores exceeded the previous year's performance by 26.9 per cent. Volumetrically sales of gas welding and electric welding equipment and consumables registered some advance but sales of industrial gases and a few other products were generally lower than in the preceding year mainly due to shortage of vital inputs and a number of other constraints. Export sales recorded a more than three-fold increase over the previous year. This has enabled the company to obtain recognition as an export house for engineering goods and chemical and allied products. The profit for the year after providing for depreciation amounted to Rs 2.97 crores as compared to Rs 2.75 crores in 1972-73. A sharp rise in operating costs due to the severe inflationary pressures in the economy and rise in interest charges affected the company's profits during the year. The profit increase, therefore, was not in line with the sales advance. In view of the dividend ordinance the directors have recommended a dividend of only six per cent for 1973-74.

As already stated certain shortages hindered the company's production and caused slackening of the customer demand during 1973-74. If the company's operations are not similarly impeded and there is no set-back in the customer demand, the company's prospects in the immediate future will be satisfactory. These observations are contained in the Chairman, Mr K. Hartley's annual statement circulated to

the shareholders of the company.

### Tribeni Tissues

Tribeni Tissues has received the government's consent for substantial expansion of its production capacity by 10,000 tonnes per annum. This project will be executed in two phases. The first phase will increase the capacity of the existing mill by 60 per cent and enable it to manufacture a wide variety of speciality papers most of which are at present imported. The capital outlay was initially estimated at Rs 9 crores but owing to cost escalation both at home and abroad the estimate has been revised upwards to Rs 10.50 crores. The foreign exchange loan of Rs 75 lakhs has been arranged with ICICI arrangements for rupee finance are being made. In accordance with the industrial licence, foreign equity will be reduced to 51 per cent. For this purpose the company proposes to make a rights and a new public issue. The details in this regard are expected to be made known shortly.

### Tata Electric Cos.

Hitherto the three Tata electric companies used to pay interim dividends every year and the interim dividends are normally declared in the month of January. With the enactment of the Companies (Temporary Restrictions on Dividends) Act, 1974, the companies are precluded, in terms of Section 6 of the said Act, from paying any interim dividend during a period of two years from July 6, 1974, except with the previous approval of the central government. In terms of the restrictions imposed by the said Act, it is estimated that the total equity dividend that could be paid by the companies for 1974-75 would not exceed five per cent. Further, there is still a small balance of preference dividend relating to the last year remaining unpaid in the case of the Tata Hydro and Tata Power Companies. In the circumstances, the Boards of Directors of the three Tata electric companies have de-

cided not to pay any interim dividend for 1974-75.

### New Issues

**Anglo-American Marine Company Ltd.**, is offering 274,000 equity shares of Rs 10 each and Rs 15,000 (11 per cent) redeemable cumulative preference shares of Rs 100 each for cash at par to the public for subscription. The subscription list for this fully under written issue opened on February 10. It will close on February 19 or earlier but not before February 15. The proceeds of the issue will be utilised by the company for financing its expansion programmes. The company is setting up a project for the manufacture of 6,000 gear hobs per annum in technical collaboration with the world renowned firm of M/s Klingelberg Verzahntechnik GmbH of West Germany. A industrial licence for the manufacture of 12,000 numbers of gear hobs and gear shaping cutters each has been received by the company. A plant is being set up in the MIDC Chikalhana industrial area, Aurangabad, a notified backward region in the state of Maharashtra. Apart from attracting many fiscal benefits by virtue of its location in the form of subsidy, tax rebates and other facilities, the site is ideally stated on account of its nearness to major customers. Adequate supply of power and water had been assured for the company.

The existing profitability of its present operations as evidenced by its growth rate and working results, estimated profitability of its new products, which will find a ready market being by way of import substitution, its efficient current operations, its technical know-how expertise, and its customers' goodwill built over the years, the directors are confident of declaring a reasonable good dividend on the increased capital for the year ending June 30, 1975. The equity shares now being issued will rank *pari passu* with the existing equity shares of the company in all respects, except that in respect of the dividend declared for 1974-75, the new equity

shares will only be entitled to on a pro-rata basis from the date of allotment and proportionate to the amount paid up on them.

**Globe Auto (Gujarat)** will be entering the capital market shortly with a public issue of Rs 12 lakhs, all in a equity shares of Rs 10 each at par. The company is setting up a project for the manufacture of diesel starting motors, generators and regulators at Vapi, Gujarat. A precession room and machine shop has been purchased from Globe Auto Electricals. Commercial production is expected to commence from April 1975. Technical know-how from Magneti Marelli for the diesel starting motor, the most sophisticated item to be manufactured by the company, has been made available through Globe Auto Electricals. There capital outlay on the project of Rs 40 lakhs will be met by the share capital of Rs 20 lakhs while an equal amount will be raised as a long-term from Gujarat State Financial Corporation.

**Bihar Hotels** will soon be offering to the public for subscription 240,000 equity shares of Rs 10 each and 3000 cumulative redeemable preference shares of Rs 100 each at par. The company is setting up a Rs 1.05-crore international standard hotel known as "Clarks Maurya" in the central business area of Patna. The hotel will have 80 guest rooms, besides a bar, restaurants and a swimming pool. It will be centrally air-conditioned. The capital outlay of Rs 1.05 crores will be financed by the share capital of Rs 43 lakhs, long term loan from IFC of Rs 37 lakhs and long-term loan from the Bihar State Financial Corporation of Rs 25 lakhs.

### Capital and Bonus Issues

The Government has allowed 15 companies to raise capital worth over Rs 3.69 crores. The following are the details:

**J.M.A. Industries Pvt. Ltd.** has been accorded consent, valid for three months, to capi-

capitalise Rs 13,00,000 out of its general reserve and issue 13,000 fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every three equity shares held.

**Mechanical Packing Industries Pvt. Ltd.,** Bombay, has been accorded consent, valid for three months, for the issue of bonus shares worth Rs 1.50 lakhs.

**Basant Rubber Factory (Pvt) Ltd.,** Bombay, has been granted consent, valid for a period of three months, for issue of bonus shares worth Rs 5,00,000.

**S.K. Sen and Son Pvt Ltd.:** Calcutta, has been accorded consent, valid for three months, to capitalise Rs 10 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus share in the ratio of one bonus share for every one equity share held.

**Indian Splicing (Mechanical) and Accessories Ltd.,** Calcutta, has been granted consent, valid for 12 months only, for issue of Rs 10 lakhs in equity privately.

**Indabrador Ltd.,** has been allowed to capitalise Rs. 13.13 lakhs for issuing bonus shares in the ratio of three shares for every five equity shares held.

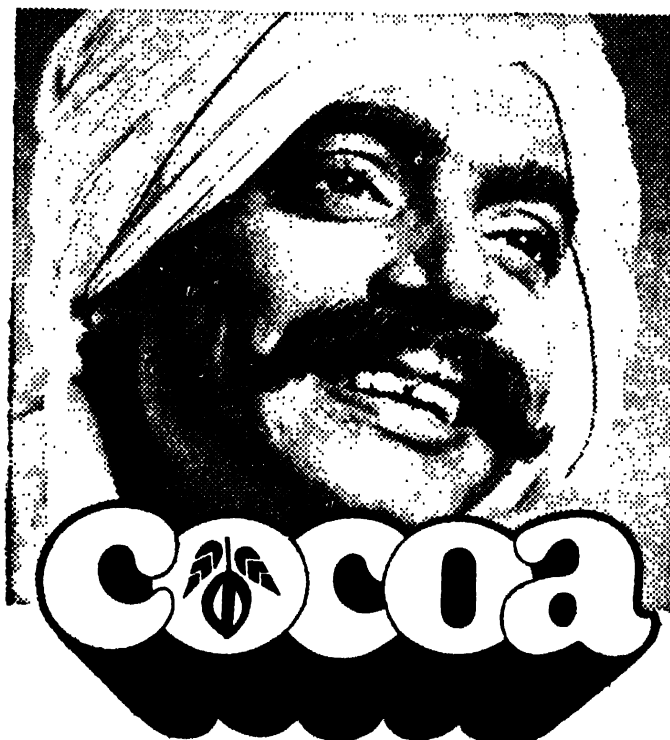
**Uniloids Ltd.,** Hyderabad, has communicated to Government its proposal to issue capital under Clause 5 of the Capital Issues (Exemption) Order, 1969, to the value of Rs. 32 lakhs (inclusive of the capital already raised) in 3,20,000 equity shares of Rs. 10 each, for cash at par, out of which shares worth Rs. 18.50 lakhs will be offered for public subscription.

**Triveni Sheet Glass Works Ltd.,** Allahabad, has communicated to government its proposal to issue capital under Clause 5 of the Capital Issues (Exemption) Order, 1969, to the value of Rs. 25 lakhs in 25,000 (11 per cent) cumulative redeemable preferential shares of Rs. 100 each for cash at par to the public by a prospectus.

**S. and P. Engineering Pro-**

## Now India can grow Cocoa

# giving the Indian farmer a high-return cash crop.



Nearly a decade ago when Cadbury-Fry launched their Cocoa cultivation project very little was known in India about cocoa growing. Because cocoa does need certain conditions of soil and climate, in order to flourish, even the "experts" were divided in their views on the success of the venture. However, Cadbury's probably know more about cocoa-growing than anyone else in the world, and with their knowledge of Indian conditions they were confident that given time, patience and the right inputs, it could be done. They had the

knowledge, and they also had the faith, and the will. Today, 4500 acres of land in South India are under scientific cultivation—a pioneering agricultural achievement. The first crop has been gathered in and the farmer is responding enthusiastically to this high-return cash crop. With wider interest and improvements in cultivation taking place at a steady pace, India will not only be able to meet her entire domestic demand but also enter the international market with cocoa. The world demand for cocoa is unfulfilled, which makes

the scope for exports considerable. The entry of Indian-grown cocoa into the country's export list will help to improve India's foreign trade.

For India, cocoa is three things combined in one: it is one of the best-rated energy foods for India's growing children, a valuable cash crop for Indian farmers, and it is going to be an important Indian export commodity of the future.

Cadbury-Fry are working for the future, in the same spirit that made cocoa-growing possible in India.

**Cadbury-Fry**  
Making India the Cocoa Country

ducts Ltd., Calcutta, has communicated to Government its proposal to issue capital under Clause 5 of the Capital Issues (Exemption) Order, 1969, to the value of Rs. 5 lakhs in 5,000 (11 per cent) cumulative redeemable preferential shares of Rs. 100 each for cash at 'par' as rights shares.

**Ratnakar Shipping Co. Ltd.,** Calcutta, has been accorded consent to issue further capital of Rs. 1.01 crores in equity shares of Rs. 10 each as rights shares. The aforesaid right issue is required for maintaining the debt equity ratio.

**Savamalai Estates Ltd.,** Bangalore, has been permitted to capitalise Rs. 3.44 lakhs for issuing bonus shares in the ratio of one share for every two equity shares held.

**Coorla Spinning and Weaving Co. Ltd.,** Bombay, has been granted consent to issue bonus shares worth Rs. 26 lakhs only.

**Bayer (India) Ltd.,** Bombay, has been accorded consent valid for 12 months only, for issue of further capital of Rs. 32.25 lakhs in equity shares of Rs. 100 each, for cash at a premium of Rs. 100 per share to the Indian nationals.

**Hyderabad Vanaspathi Ltd.,** has communicated to government its proposal to issue capital under Clause 5 of the Capital Issues (Exemption) Order, 1969, to the value of Rs. 30 lakhs in 2.50 lakh equity shares of Rs. 10 each and 5,000 cumulative redeemable preferential shares of Rs. 10 each.

**General Electric Company of India Ltd.,** Calcutta, has been granted consent to issue Rs. 71.35 lakhs (nominal amount) in 7,13,500 equity shares of Rs. 10 each to be issued to the existing Indian shareholders on rights basis for cash at a premium of Re. one per share so as to reduce the non-residents' shareholding to 66.67 per cent.

## News and Notes

**Harihar Polyfibers** — a division of Gwalior Rayon &

**Silk Mfg. (Wvg.) C. Ltd.** — Harihar, Karnataka, has been selected for "The Sir P.C. Ray Award" for developing on a commercial scale and for the first time, rayon grade filament pulp from hybrid eucalyptus grown in the state of Karnataka. As far as is known, this innovative development of rayon grade pulp from hybrid eucalyptus has been accomplished by this Company for the first time in the world. In the year 1965, Messrs Gwalior Rayon & Silk Mfg. (Wvg.) Co. Ltd. had been given "The I.C.M.A. Award for Forward Technology" for producing for the first time in the country rayon grade pulp from bamboo, another indigenous raw material available in plenty.

While a significant portion of the plant for this technology was imported at that time, it is to the credit of Messrs Harihar Polyfibers to have not merely carried forward this technology further but innovated it in a manner so as to eliminate the total need for importing any equipment from abroad. In fact, the innovative efforts have been based on considerable research and development work done by the company both on the new eucalyptus hybrid as a source of pulp and in developing new engineering designs and fabricating a considerable part of the hardware of the plant in its own workshop, based on engineering concept and design developed by them and getting most of the hardware from within the country.

The company's commendable indigenous efforts in innovating this technology of pulp and again using entirely different source of raw material involving the overall Indian effort, has earned the company this coveted Award. The pulp has already been approved and accepted for the manufacture of filament rayon and has a promise of being further developed for tyre cord requirements.

**Rajendra Coffee** has proposed to issue 40,000 equity shares of Rs five each as bonus shares in the ratio of one new share

for every share held. This is, however, subject to the consent of the Controller of Capital Issues.

Mr. P. K. Choudhury, the first Indian executive of the Company to be elected to the Board of **Hindustan Milkfood Mfrs. Ltd.** (the makers of Horlicks) brings with him extensive experience in sales and marketing of consumer products. Mr Choudhury drew his experience from Lipton's, where he was the driving force behind their sales and marketing for 12 years. Late 1965 saw him in the House of Sarabhai as Sales Director of Sarabhai Merck Ltd. Later, he was instrumental in forming and establishing H.P.M.A. a cen-

tralised marketing and distribution house of consumer products, as its Marketing Director. A specialist in Promotions and New Products Introduction, Mr. Choudhury joined the **Beecham Group** as Marketing Director of **Hindustan Milkfood Manufacturers Ltd.**

During the month of January 1975, the Delhi Factory of **Hindustan Insecticides Limited** produced 705 tonnes of formulated D.D.T. creating an all-time monthly production record and exceeding the rated capacity by a handsome margin. This production surpasses the previous peak production of 687 tonnes touched by the factory in March 1973.

## Dividends

(Per cent)

| Name of the company      | Year ended     | Equity dividend declared |               |
|--------------------------|----------------|--------------------------|---------------|
|                          |                | Current year             | Previous year |
| <b>Higher Dividend</b>   |                |                          |               |
| Aryodaya Spg. & Wvg.     | March 31, 1974 | 15.0                     | 15.5          |
| <b>Same Dividend</b>     |                |                          |               |
| Paper & Pulp Conversions | July 31, 1974  | 12.0                     | 12.0          |
| Bagalkot Udyog           | June 30, 1974  | Nil                      | Nil           |
| Hindustan Construction   | July 31, 1974  | Nil                      | Nil           |
| Mysore Commercial        | March 31, 1974 | Nil                      | Nil           |
| Poddar Projects          | June 30, 1974  | Nil                      | Nil           |
| Ruby Mills               | March 31, 1974 | 8.0                      | 8.0           |
| Usha Spg. & Wvg.         | June 30, 1974  | Nil                      | Nil           |
| Textool                  | April 30, 1974 | Nil                      | Nil           |
| Ruby Rubber              | June 30, 1974  | Nil                      | Nil           |
| <b>Reduced Dividend</b>  |                |                          |               |
| Bestobell India          | June 30, 1974  | Nil                      | 10.0          |
| D.B.R. Mills             | June 30, 1974  | 12.0                     | 12.5          |
| Special Steels           | June 30, 1974  | 7.0                      | 15.0          |
| Shree Gopal Industries   | June 30, 1974  | 12.0                     | 15.0          |

# RECORDS AND STATISTICS

## Company deposits

**DURING THE** past decade, the deposits taken by companies in this country have increased substantially. Some of these companies have not been able to honour their commitments in regard to the payment of interest as well as capital. In order to regulate the activities of these companies, the government of India, in consultation with the Reserve Bank of India, amended the Companies Act (1956). The rules framed under this Act are to be known as Companies (Acceptance of Deposits) Rules, 1975. They cover exceptions (such as loans from the central and state governments), reserves and guidelines for the acceptance of deposits. The procedures for repayment, advertisements and penalties for the violation of these rules have also been laid down.

The following is the text of the gazette notification regarding rules relating to company deposits:

In exercise of the powers conferred by Section 58A read with Section 642 of the Companies Act, 1956 (1 of 1956), the central government in consultation with the Reserve Bank of India, hereby makes the following rules, namely:

### 1. Short title commencement and application :

(1) These rules may be called the Companies (Acceptance of Deposits) Rules, 1975.

(2) They shall come into force on the date of their publication in the official Gazette.

(3) They shall apply to such companies as are not banking companies and are not also financial companies.

2. **Definitions:** In these rules unless the context otherwise requires :

(a) "Act" means the Companies Act, 1956 (1 of 1956).

(b) "deposit" means any deposit of money with, and includes any amount borrowed by, a company, but does not include—

(i) any amount received from the Central Government or a State Government or any amount received from any other source and whose repayment is guaranteed by the Central Government or a State Government, or any amount received from a local authority or a foreign government or any other foreign citizen, authority or person;

(ii) any amount received as a loan from any banking company or from the State Bank of India or any of its subsidiary banks or from a banking institution notified by the Central Government under Section 51 of the Banking Regulation Act, 1949 (10 of 1949) or a corresponding new bank as defined in clause (d) of Section 2 of the Banking Companies Acquisition and Transfer of Undertakings Act, 1970 (5 of 1970), or from a cooperative bank as defined in clause (d) of section 2 of the Banking Companies Acquisition and Transfer of Undertakings Act, 1970 (5 of 1970) or from a cooperative

bank as defined in clause (bii) of section 2 of the Reserve Bank of India Act, 1934 (2 of 1934).

(iii) Any amount received as a loan from the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948 (15 of 1948) or from a State Financial Corporation established under the State Financial Corporation Act, 1951 (63 of 1951) or from the Shipping Development Fund Committee constituted under Section 15 of the Merchant Shipping Act 1958 (44 of 1958) or from the Unit Trust of India established under the Unit Trust of India Act, 1963 (52 of 1963) or from the Industrial Development Bank of India established under the Industrial Development Bank of India Act, 1964 (18 of 1966) or from an Electricity Board constituted under the Electricity (Supply) Act, 1948 (54 of 1948) or from the Life Insurance Corporation of India constituted under Section 3 of the Life Insurance Corporation Act, 1956 (31 of 1956) or from the Rehabilitation Industries Corporation of India Limited or the Minerals and Metals Trading Corporation of India Limited or the Rural Electrification Corporation Limited or the Agricultural Finance Corporation Limited or the Industrial Reconstruction Corporation of India Limited or the Industrial Credit and Investment Corporation of India Limited or the National Industrial Development Corporation of India Limited or the Tamil Nadu Industrial Investment Corporation Limited or the State Industrial and Investment Corporation of Maharashtra Limited or from any other public financial institution which may be notified by the Central Government in this behalf in consultation with the Reserve Bank of India;

(iv) any amount received by a company from any other company;

(v) any amount received from an employee of the company by way of security deposit;

(vi) any amount received by way of securing or as an ad-

vance from any purchasing agent, selling agent, or other agents in the course of, or for the purposes of, the business of the company or any advance received against orders for the supply of goods or properties or for the rendering of any service.

(vii) any amount received by way of subscriptions to any shares, stock, or bonds debentures (such bonds or debentures being secured by a charge or lien on the assets of the company), pending the allotment of the said shares, stock, bonds, or debentures and any amount received by way of calls in advance on shares, in accordance with the articles of association of the company so long as such amount is not repayable to the members under the articles of association of the company;

(viii) any amount received in trust or any amount in transit;

(c) "depositor" includes any person who has given a loan to a company;

### Free reserves

(d) "free reserves" shall include all sums shown or published in the balance sheet or in the profit and loss account of the company as being retained for any general or unspecified purpose and any statutory development rebate reserve created under sub-section (2) of section 10 of the Indian Income-tax Act, 1922 (11 of 1922) or under sub-section (3) of section 34 of the Income-tax Act, 1961 (43 of 1961) or any reserve for development allowances created under sub-section (3) of section 33A of the Income-tax Act 1961 (43 of 1961) or under any other law for the time being in force.

### 3. Acceptance of deposits by companies:

(1) On and from the commencement of these rules:

(a) no company shall accept any deposit which is repayable on demand or on notice or repayable after a period; or

(b) renew any such deposit



accepted by it whether before or after such commencement except where such deposit is repayable after the expiry of six months or more from the date of acceptance or renewal of such deposit; provided that a company may for the purpose of meeting any of its short-term requirements for funds accept or renew such deposits as are referred to in clause (1) of sub section (2) for repayment earlier than six months from the date of deposit or renewal as the case may be, subject to the condition that such deposits:

(i) shall not exceed ten per cent of the aggregate of the paid-up share capital and free reserves of the company; and

(ii) are repayable not earlier than three months from the date of such deposit or renewal thereof, as the case may be.

(2) on and from the commencement of these rules, no company shall accept:

(i) any deposit against an unsecured debenture or any deposit from shareholder (not being deposit accepted by a private company from its shareholders) or any deposit guaranteed by any person who, at the time of giving such guarantee is a director of the company, if the amount of any such deposit together with the amount of such other deposits referred to in this clause and outstanding on the date of acceptance or renewal of such deposit, exceeds fifteen per cent (including any deposit accepted under the proviso to sub rule, (1) of rule 3 of the aggregate of the paid-up share capital and free reserves of the company;

Provided that for the purpose of calculation of the amount of deposits outstanding in the date of such acceptance or renewal, any deposit guaranteed by a person who, at the time of giving such guarantee, was the managing agent or secretaries and treasurers of the company, and outstanding on such date shall be taken into account;

(ii) any other deposit, if the

amount of such deposit together with the amount of such other deposit other than any of the deposits referred to in clause (i) outstanding on the date of acceptance or renewal, exceeds twenty-five per cent of the aggregate of the paid-up share capital and free reserves of the company.

(3) If, immediately before the commencement of these rules, the aggregate amount of deposits, of the nature referred to in clause (i) of sub rule (2), accepted by a company before such commencement, exceeds the limit specified in the said clause (i), the company shall, on or before the 31st day of December, 1975, bring down the deposits to the limit aforesaid and for this purpose the company shall repay such deposits as may be necessary.

**Explanation 1:** For the purposes of this rule, "deposit" shall not include any loan secured by the creation of a mortgage, charge or pledge of any of the assets of the company or part thereof, if the amount of such loan does not exceed twenty-five per cent of the market value of the assets which constitute the security for the loan.

Provided that if the Central Government is satisfied that a mortgage or a pledge created by a company is not in the public interest it may declare that the loan creating such mortgage or pledge shall be deemed to be a deposit for the purposes of this rule.

**Explanation 2:** For the purposes of this rule, in arriving at the aggregate of the paid-up share capital and free reserves of a company, these shall be deducted from the aggregate of the paid-up share capital and free reserves as appearing in the latest audited balance sheet of the Company of the amount of accumulated balance of loss, balance of deferred revenue expenditure and other intangible assets, if any, as disclosed in the said Balance Sheet.

**4. Form and particulars of advertisements:** (1) Every company intending to invite or

accept deposit from the public, other than deposits from its directors, shall issue an advertisement for the purpose in a leading English newspaper and in one vernacular newspaper circulating in the State in which the registered office of the company is situated.

(2) No company shall issue or allow any other person to issue or cause to be issued on its behalf, any advertisement inviting deposits, unless such advertisement is issued on the authority and in the name of the Board of Directors of the company and contains a reference to the conditions subject to which deposits shall be accepted by the company the date on which the said Board of Directors has approved the text of advertisement, and the following informations, namely:

(a) name of the company;

(b) the date of incorporation of the company;

(c) the business carried on by the company and its subsidiaries with the details of branches or units, if any;

(d) brief particulars of the management of the company;

(e) names, addresses and occupations of the directors;

(f) profits of the company, before and after making provision for tax, for the three financial years immediately preceding the date of advertisement;

(g) dividends declared by the company in respect of the said years;

(h) particulars relating to the company as on the date of the latest audited balance sheet of the company (which date shall also be stated) under the following heads, namely:

(i) paid-up share capital; (ii) free reserves; (iii) deposits; (iv) any loan or advance obtained by the company and secured by a mortgage or pledge on the property of the company, including temporary loans as

defined in section 293 of the Act;

(v) accumulated balance of loss, if any, and

(vi) an account of the proposed utilisation of the money to be received as deposits with details of projects, if any, to be financed out of the deposit.

(3) An advertisement issued in accordance with this rule shall be valid upto the end of

## **COMPANY NOTICE**

### **The Metal Box Co. of India Ltd. Notice**

General Notice is hereby given to the members of the public under Rule 4A of the Monopolies and Restrictive Trade Practices Rules, 1970, that The Metal Box Company of India Ltd, intends to make an application to the Central Government under Section 21 (Sub Section 1) of the Monopolies and Restrictive Trade Practices Act, 1969, of their proposal to manufacture Printing Machinery by substantial expansion of their Unit manufacturing packaging and closing machinery for tinplate/aluminium, plastic and paper/board packages including related printing decorating machinery in the State of West Bengal.

Any person interested in the matter may, if he so desires, intimate to the Central Government in the Department of Company Affairs, Ministry of Law, Justice and Company Affairs, within fourteen days from the date of publication of this Notice, his views, if any, with regard to the said proposal of the Company as also the nature of his interest therein.

For The Metal Box Company of India Ltd  
A. T. VASWANI  
Secretary

Registered Office:  
Barlow House  
59C Chowringhee Road  
Calcutta—700020  
11 February 1975



the financial year in which it is issued, and, a fresh advertisement shall be made, in each succeeding financial year for the acceptance of deposits during that financial year.

(4) No advertisement shall be issued by or on behalf of a company unless, on or before the date of its issue, there has been delivered to the Registrar for registration a copy thereof signed by every person who is named therein as a director.

**Explanation:** For the purpose of this rule, the date of the issue of the newspaper in which the advertisement appears shall be taken as the date of issue of the advertisement.

(5) Every change in the particulars contained in the advertisement of which a copy has been filed with the Registrar in accordance with sub-rule (4) shall also be notified to the Registrar within thirty days from the day on which such change occurs.

**5. Form of application for deposits:** (1) on and from the commencement of these rules, no company shall accept, or renew any deposit unless an application is made by the intending depositor for the acceptance of such deposit and such application contains a declaration by such person to the effect that the amount is not being deposited out of the funds acquired by him by borrowing or accepting deposits from any other person.

(2) The application referred to in sub-rule (1) shall be made in the form supplied by the company and such form shall be accompanied by a statement by the company containing all the particulars specified in sub-rule (2) of rule 4 and incorporating therein all changes in relation to such particulars up to the date on which the form is issued by the company.

**6. Furnishing of receipts to depositors:** (1) Every company shall, on the commencement (acceptance) or renewal of a deposit, furnish to the depositor or his agent, a receipt for

the amount received by the company.

(2) The deposit receipt referred to in sub-rule (1) shall be signed by an officer of the company duly authorised by the company in this behalf and shall state the date of deposit, the name and address of the depositor, the amount received by the company as deposit, the rate of interest payable thereon and the date on which the deposit is repayable.

**7. Registers of deposits:** (1) Every company accepting deposits shall keep at its registered office one or more registers in which there shall be entered separately in the case of each depositor the following particulars, namely: (a) name and address of the depositor; (b) date and amount of each deposit; (c) duration of the deposit and the date on which each deposit is repayable; (d) rate of interest; (e) date or dates on which payment of interest will be made; (f) any other particulars relating to the deposit.

(2) The register or registers referred to in sub-rule (1) shall be preserved in good order for a period of not less than eight calendar years from the financial year in which the latest entry is made in the register.

**8. General provisions regarding repayment of deposits:** (1) Where a company makes repayment of a deposit after the expiry of a period of six months from the date of such deposit but before the expiry of the period for which such deposit was accepted by the company, the rate of interest payable by the company on such deposit shall be reduced by one per cent, from the contracted rate and the company shall not pay interest at any rate higher than the rate as so reduced.

(2) In respect of any deposit referred to in column (1) of the Table below, no company shall pay interest at a rate exceeding the rate specified in

the corresponding entry in column (2) of the said table:

**TABLE**

| (1)                                                                                                                 | (2) |
|---------------------------------------------------------------------------------------------------------------------|-----|
| (i) if the deposit is repaid within a period of 14 days from the date of receipt.                                   | Nil |
| (ii) if the deposit is repaid after a period of 14 days but within a period of 45 days from the date of receipt.    | 2%  |
| (iii) if the deposit is repaid after a period of 45 days but within a period of 90 days from the date of receipt.   | 2½% |
| (iv) if the deposit is repaid after a period of 90 days but within a period of six months from the date of receipt. | 4%  |

Provided that nothing in this rule shall apply to a deposit the terms and conditions of which provide for the earlier repayment of the deposit at the option of the company and the deposit is repaid earlier in pursuance of such deposit.

**9. Power of Central Government to decide certain questions.**

If any question arises as to whether these rules are or are not applicable to a particular company, such question shall be decided by the Central Government in consultation with the Reserve Bank of India.

**10. Return of deposits to be filed with the Registrar.**

Every company to which these rules apply, in each year, file with the Registrar, within thirty days from the last day

of its financial year, a return containing:

(a) the amount of deposits brought forward from the previous financial year; (b) the deposits accounted or renewed during the financial year; (c) the amount of deposits repaid during the financial year and the balance of deposits outstanding at the end of the financial year; (d) the total number of deposits, repayable during the financial year, which remain unclaimed and the aggregate amount of such unclaimed deposits; (e) the total number of deposits, repayable during the financial year, which though claimed, have not been repaid by the company during the financial year and the aggregate amount of the deposits remaining so unpaid; (f) the reasons in relation to each deposit, for the non-payment of any deposit after the repayment thereof has become due;

Provided that the furnishing of such reasons shall not be necessary unless, the aggregate amount of deposits remaining unpaid at the end of the financial year exceeds rupees five lakhs; (g) the steps which have been taken for the repayment of the deposits referred to in clause (f).

**11. Penalty:** If a company or any other person contravenes any provision of these rules for which no punishment is provided in the Act, the company and every officer of the company who is in default or such other person shall be punishable with fine which may extend to five hundred rupees and where the contravention is a continuing one, with a further fine which may extend to fifty rupees for every day after the first during which the contravention continues.

**12. Repeal and saving:** On the commencement of these rules, all rules, orders or directions in force in relation to any matter for which provision is made in these rules shall stand repealed, except as respects things, done or omitted to be done before such repeal.

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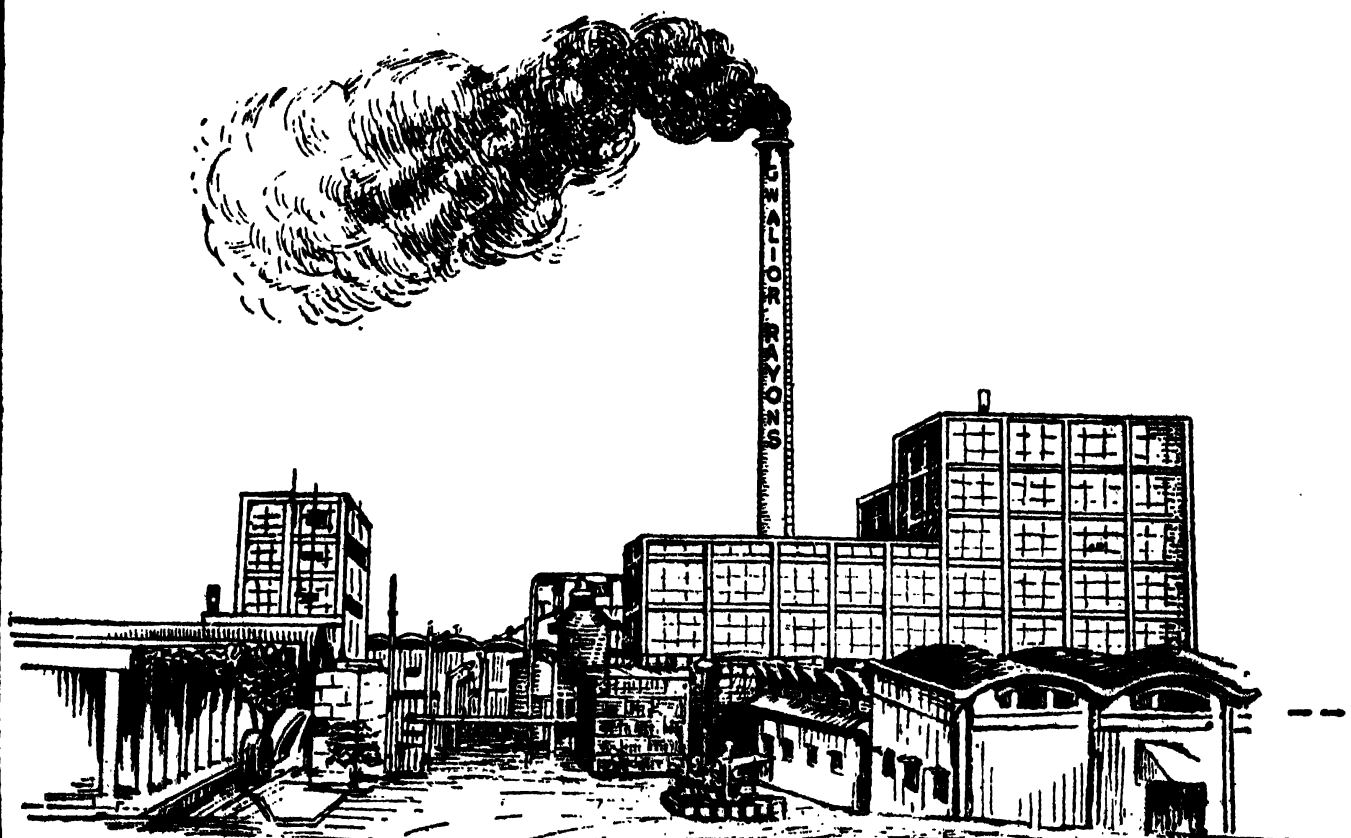
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# But bridges to cross

It was not expected of course that the railway budget this time would make any new demands of a sweeping nature on the purse or pockets of those who must use the services of the railways.

## eastern ECONOMIST

FEBRUARY 21, 1975

Freight rates and passenger fares were revised in September last year to yield about Rs 133.47 crores during the rest of the financial year ending March 1975. The recurring legacy of this revision is available to railway finances in the new financial year. Nevertheless, a little more revenue-raising has to be done if only for the purpose of window-dressing. The budgeted surplus of Rs 23.03 crores cannot of course be taken seriously. For one thing it has not provided for liabilities relating to increases in Dearness allowance which have already fallen due. For another, the revenue estimates make assumptions of a macro-economic character which may perhaps tax the benevolence of the stars in which the new Railway minister is reputed to place so much faith. For the time being, however, with almost everybody talking of the economy having turned the corner and the Finance minister virtually promising a production-oriented budget, it could perhaps be supposed that Mr Kamalapati Tripathi may not be overstraining the goodwill of the heavenly bodies.

There are at least two laudable trends in railway management as revealed by the budget papers. The first is that, following the blow dealt to railway finances and operations by the strike last year, the management seems to have made a special effort to improve both. In this it has been reasonably successful, but the question is whether this spells an end to the drift which in past years had done so much to make the railways such an expensive and inefficient public utility. It is not enough that the railway strike has shocked the Railway Board into an immediate recognition of its responsibility to ensure better management. The country has a right to insist on enduring improvement in this regard. There can be no substitute for a constant sense of responsibility on the part of the Railway Board if productivity of the railways is to be more permanently protected and promoted.

The other aspect that calls for commendation is that the Railway Board is at last firming itself up to take hard decisions. There is, happily, far less politics in this budget than in any other railway budget in recent years. It is clearly sensible to end the subsidizing of movements of foodgrains or iron and manganese ores. With Railway finances so much in the red, a much stronger case will have to be made for the continuance of the concessions than seems possible. A large part of grain movement is and will continue to be under the auspices of private trade. This trade has not shown any conspicuous restraint in seeking profits. There is no reason why it should be spared from paying an economic price for its use of rail transport. Even where grain handled by the public distribution system is concerned, the proper course would be for the subsidy, if there is to be any, to be borne on the relevant estimates in the general budget.

As for iron ore or manganese ore moving into the export trade, the world prices of these commodities have moved up and, even if it is to be assumed that the world steel industry is about to experience significant recession, there is no proof that the proposed increases in the freight rates on this ore traffic would make any material difference to our country's competitiveness.

The Railway Board has also shown guts in cutting the coat of its capital budget to the cloth of the resources available to it. If this austerity prompts further discipline in operational and financial management, the country would reap a two-fold gain. It may be argued of course that arrears of development will after all have to be cleared some time. The time element however is a very relevant factor. Right now there is an absolute need to ration capital among the various claimants for investments in the public sector. The immediate need for the railways is to stabilize their ways and means and start generating internal resources which could contribute towards the financing of further substantial expansion.

A side effect of the projected economy in capital expenditure would necessarily

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be a decline in the orders which the railways will be able to place on the manufacturers and suppliers of rolling stock or other capital equipment. The wagon industry is bound to set up a wail. Bharat Heavy Electricals Limited is also stated to be in an aggrieved mood. While it is true that the railways, in their own interests and in the interests of the national economy, should be able to avoid violent swings in their demand for capital equipment, it must be admitted that no useful purpose can be served by shutting our eyes to the fact that there is a serious resource constraint at the present time. It is inevitable therefore that some painful adjustments will have to be made. In any case there is no point in asking the railways to go on placing orders if they cannot pay for the goods. Perhaps the affected manufacturers of railway equipment would recognize in the situation a compulsion to explore export possibilities more vigorously.

It is not at once obvious that the new Railway minister will make any great impact on railway policy or railway administration. Mr Tripathi however is said to be a humane person. Perhaps

his good nature would make him a little more sensitive to the travails of the travelling public. The "III Class" in passenger travel has been abolished in name, but the condition of travel for the mass of railway passengers remains 'nth' class. Punctuality and regularity of train services could no doubt be great blessings, but it is not less important that human beings should be able to travel like human beings and not be transported like cattle. Overcrowding continues to be a howling outrage on most active routes or popular train services. As for the sufferings of the commuters by the suburban train services in the metropolitan areas, the less said the better. Since this railway budget is innocent of controversial fare or freight proposals, it is to be hoped that parliament will pay purposeful and constructive attention to the basic issue of civilized railway travel for the people of this country and that the minister, in turn, would accept the responsibility of the railways for eliminating excessive overcrowding within a reasonable period of time. The railways, as the minister put it, may be seeing the end of the tunnel, but there are still some bridges to cross.

the retail market in this country was by loose tea merchants while the balance 40 per cent was sold in packets. In the latter category of sales, one packeteer of tea alone claimed 60 per cent of the share while the other had 20 per cent share. Thus, the two packeteers together controlled 80 per cent of the tea sold in the retail markets in packets. It also followed that nearly one-third (32 per cent, to be exact) of the total tea sales in this country were controlled by two packeteers.

In the United Kingdom, the picture was slightly different. There four companies controlled 90 per cent of the tea sales, the largest company controlling as much as 43 per cent of the market. The degree of concentration in regard to the sale of tea in the Indian market was certainly lower than that of the United Kingdom market. But there appeared little justification to jump to the conclusion on the basis of these facts that the tea auctions were not being rigged by powerful operators.

There was no doubt that the presence of a few members which controlled a dominant share of the market was much weaker in Indian auctions than in the UK but the study team had not put forth a convincing case in favour of its judgement that "it is extremely unlikely that market rigging by collusive activity takes place in the Indian auctions to any significant extent". It is a pity that the study team was not able to collect authentic data in this regard and had to depend on rough estimates for its judgement. Also, the line of argument put forward by it was not flawless. Because 32 per cent of the total sale of tea was in the hands of two buyers and the rest in the hands of a number of others (exact number not known), it was hardly justified to conclude that substantial ground existed for believing in the absence of collusion by major buyers.

Again, the team examined the frequent complaint of a collusion between major buyers and stated that there was no tacit collusion between the major buyers but only an informal understanding on strategy. Here also the argument put forward was far from convincing. Stated the study team: "Suppose the big buyers decide that the market is going down, then by keeping away from the market, they will let it go

## Selling tea

FOR MORE than two decades, the price of tea has stagnated at auctions both in this country and the United Kingdom. In 1953, the average price of tea at London auctions was 40.2 pence per kg. Twenty years later in 1973, it was no more than 43.3 pence per kg. The highest price realised was 58.1 pence per kg. in 1954 and the lowest at 33.6 pence per kg. in 1952. Also, between 1961 and 1973, the price of tea ruled consistently below 50 pence per kg.

In order to study the reasons for the stagnation in prices of tea and also to analyse (i) the suitability of the existing market practices and arrangements and (ii) the institutional changes and reforms needed for securing the best prices possible both in this country and abroad, the Consultative Committee of the Plantation Associations requisitioned some time back the services of a marketing study team. It consisted of (i) Prof. Amritananda Das of the Gandhian Institute of Studies, Varanasi; (ii) Dr. Peter Philip, an econometrician; and (iii) Dr. S. Subramaniam, Senior Professor of Marketing Methods at the Indian Institute of Management, Bangalore. The report of the team has been published recently.

One of the conclusions of the study related to the widely-circulated view that tea auctions were rigged against the producers by a combination of buyers. The study team termed this view as baseless. Stated the team: "There are no really acceptable alternatives to the system of auctions in the case of tea and it has been our impression that all sections of the market are unanimous on the inevitability of the auctions, and on its utility as a forum where there is open bidding and competition among buyers".

It is necessary to state here that the above-mentioned conclusion of the study team was arrived at not on the basis of exact figures but on rough data. From the information which the study team collected, it came to the conclusion that nearly 60 per cent of the tea sold in



down because the small buyers cannot take up all the slack due to the absence of the big buyers". To hammer this point further, the study team stated that if the big buyers were wrong, the market would go up eventually and they would be losers implying that the big buyers could not keep away from the market indefinitely. But the possibility of such an eventuality was rare because according to the findings of the study team "in comparison to the more sophisticated buyers, brokers are very much backward in terms of worthwhile market intelligence". And the producers depended upon the brokers for market intelligence.

After having come to the conclusion that there was hardly any possibility of the major buyers rigging the market through collusion, the study team hastened to concede that "the big buyers can have short-term effects on market prices but since the major portion of tea is accounted for by other buyers this action cannot influence by itself the behaviour of prices over a longer period". This was once again a subjective view which could be disputed. It seems that the study team should have perhaps taken greater pains to collect additional information before hurrying to present its findings to the country. The broad question of rigging of tea auctions remained an open one as the findings of the team were not based on faultless analysis but on subjective interpretation of information gathered.

The study team had however blamed the weakness in the selling system as the cause for stagnation in tea prices. As the producers suffered from inadequate financing at the warehousing and marketing stage, this had a weakening effect on the auctioning system and forced the producers to resort to distress sale. In other words, like any other agricultural commodity tea also was a victim of the incapacity of the producers to hold stocks. Surely, this could be a potent factor but the various techniques employed by the powerful tea buyers also affected the tea market. The study team had however criticised the producers for not having taken any serious steps to act in unison and bring to an end the chronic pressure under which they were forced to sell their produce.

After reviewing the supply and demand

for tea in the world, the study team concluded that the basic reason for low prices for tea did not lie in the institutional arrangements for the marketing of tea but in the fundamental imbalance between the supply-demand forces in the market. Partly, it was the slow growth in demand in the developed countries which accounted for the bulk of import of tea. Surely this could be one of the reasons for keeping the prices of tea in the international market at a relatively low level. The recent decision of the major producers i.e. our country and Sri Lanka to work in close cooperation may bring about beneficial results. However, tea had to compete with a number of beverages in the international

market and unless demand for it is stimulated in line with increasing production, there is no possibility of it being able to obtain improved prices.

The study thus had pinpointed some of the causes which could be responsible for the depressed prices of tea though its efforts were concentrated in a scrutiny of the auction system. There could be little disagreement in regard to the various well-known points made by it except for its observations regarding the auction system. Perhaps there was scope for a more elaborate study on this subject for which the inspiration should come from sources other than the plantation associations.

## Spoilt sugar

A PIQUANT situation has arisen in the sugar industry as a result of the unwillingness of the central government to raise prices for levy sugar in the 1974-75 crushing season and the earlier inadequate adjustments in these prices. The sugar producers have been representing to the ministry of Agriculture and Irrigation that the policy of partial decontrol was proving to be ineffective due to the heavy loss sustained on sales of levy sugar and the compulsion to recover these losses through the disposal of the free-sale quota and pay also cane prices much higher than those fixed under the new government formula. The government has of course recognised the need for cushioning the losses sustained on levy sugar and providing also a reasonable return to the sugar producers, even after the payment of high cane prices, by increasing the quota for free sale to 35 per cent from 30 per cent.

It has also been decided by the UP government, which is also a large producer of khandsari, that there should be a levy of one third of khandsari output in the state from the beginning of this year at Rs 200 per quintal in order to reduce the diversion of cane for being converted into khandsari and also release sugar for export. It is not expected however that more than 20,000 tonnes of sugar can be saved in this manner and made available for export by the centre. It had been earlier suggested that there should be a uniform policy in regard to the imposition

of a levy on production of khandsari sugar and also a higher level of excise duties. With the high prices prevailing in the open market for refined sugar, on account of the levy of an ad valorem duty of 37½ per cent, khandsari producers are in a position to compete actively with sugar factories and pay handsome prices to the growers.

On the basis of the tariff value of Rs 345 for free sale sugar per quintal, the excise duty works out to Rs 129.375 per quintal. Curiously enough, the tariff value is now much higher than prevailing open market prices as there has been a sharp fall in recent months with heavy arrivals of khandsari sugar. The latter is available 5 to 10 per cent cheaper than refined sugar and large consumers have shown a preference for khandsari because of the saving in expenditure that could be effected. The policy of the UP government in imposing a levy on khandsari production is of course half-hearted as the output in the first three months of the season was not subjected to any levy. Also there are no reliable estimates of production and it is not clear whether the levy will be effective.

It is reckoned however that khandsari output has been increasing significantly in the past three years and it will be now even 8 lakh tonnes with Andhra Pradesh emerging as another important producer. The capital outlay involved for establishing eight khandsari units on the basis of present costs is only a fraction of what would have to be incurred on a modern sugar factory on a comparable basis. In view

of the attractive return on investment and the absence of any control over prices and production khandsari producers have been making larger profits per tonne than their counterparts in the organised sector.

The manufacture of khandsari in increasing quantities will no doubt lead to the realisation of higher prices by the cane grower and the extension of this cash crop over larger areas. However, the standardisation of quality of production cannot be ensured and there is also a loss in recovery of sugar by over one per cent as compared to the sugar factories due to ineffective handling of cane supplies. This argument may be used as a reason for enabling the khandsari producers to make reasonable profits after satisfying the cane growers. The utilisation of cane in this manner however will result in increasing losses of sugar production as even now it can be estimated at over one lakh tonnes annually.

While this loss of production due to low recovery cannot be afforded by the nation, if there was an uncontrolled rise in khandsari production, the disadvantage experienced by khandsari producers on account of a lower recovery will be only Rs 20 per tonne of cane. But due to the realisation of high open market prices of around Rs 400 per quintal, the efficient khandsari producer is in a position to realise a profit of Rs 50 per quintal even after paying Rs 175 per tonne of cane. As the factories operate in areas where there is a disadvantage for the bigger sugar units in respect of freight charges, the average prices realised by the former will be less than Rs 175 per tonne.

The effect of rising production of khandsari has thus been to raise the expectation of cane farmers in regard to the return on the crop. And with high prices for other competing crops the situation has become complicated with the government deciding to fix the minimum cane price at only Rs 85 per tonne for a basic recovery of 8.5 per cent. The situation in Tamil Nadu particularly is extremely difficult as on account of high prices for rice, cane growers are demanding higher prices for cane. There is also a diversion of the area under this crop for cultivating paddy because of the much larger return available in regions where there are assured irrigation facilities. Many growers' associations have been demanding even a

price of Rs 150 per tonne of cane and crushing operations were delayed due to the inability of sugar mills to concede these demands. It is now felt that without the payment of a price of at least Rs 125 per tonne the industry in the state will not be in a position to produce even three lakh tonnes of sugar in 1975-76 against the likely new record of five lakh tonnes in 1974-75.

The excellent performance of sugar mills in Tamil Nadu in 1974-75, in spite of a labour strike for over three weeks, is due to the implementation of expansion schemes by many units in the private sector and better utilisation of the crushing capacity by sugar mills in both the private and co-operative sectors. The availability of cane supplies in the desired quantities could be ensured as the industry made reasonable profits in 1972-74 and remunerative cane prices could be paid.

The cost of production of sugar on the basis of Rs 125 per tonne of cane is however such that much higher open market prices have to be realised than those possible in the existing circumstances. It has been roughly computed that the cost of one quintal of sugar on the basis of a price of Rs 125 per tonne of cane will be Rs 210 per quintal assuming average recovery of 8.5 per cent. As the price for levy sugar has been fixed around Rs 156 per quintal the breakeven point cannot be reached until the average price realised is Rs 256 per quintal. Even with an ex-factory price of Rs 350 per quintal against the prevailing rate of Rs 290 per quintal exclusive of excise duty, only the breakeven point will be reached, while the con-

sumer of free sale sugar will have a feeling that he was being exploited as the end price will be, after payment of excise duty and transport charges, even at the wholesale level around Rs 490 per quintal. The fixation of a low price for levy sugar and the compulsion to share also with the grower 50 per cent of the "profits" over the levy price realised on free sale sugar have resulted in a distortion of the policy of partial decontrol and many sugar producers are reported to be thinking of instituting legal proceedings challenging the validity of government decisions. While the outcome of any legalistic approach will have undesirable repercussions, the fact cannot be overlooked that higher minimum prices for cane have to be fixed and the price for levy sugar also has to be such as to reduce substantially the element of subsidy involved in the distribution of sugar on a controlled basis. Otherwise, it will be difficult to expect that the record of 1974-75 in respect of production, which may even surpass the achievement of 1969-70, (the best year so far) in 1975-76.

It is needless to say that a slump in output in 1975-76 will prejudice the prospects for sugar exports in 1976-77. It may even be difficult to raise exports in 1974-75 to the desired level if it becomes clear by the middle of this year that the areas under cane had contracted significantly due to the inability of sugar mills to pay high prices for cane in some areas. The government should therefore re-examine its policy and attempt integrated control over khandsari and refined sugar output, besides eliminating the existing anomalies.

## *Eastern Economist 30 Years Ago*

FEB. 23, 1945

It now remains to indicate the measure in which the Bombay planners in their second memorandum have succeeded in reconciling planning with democracy — in short, in incorporating the essential elements of a vigorous political and economic democracy into the framework of a directed economy. On account of recent historical association of economic planning with Russia and Germany, it has been widely assumed that a planned economy can only function within the political framework of a totalitarian government. On the contrary, the

Bombay planners assure us that "planning is not inconsistent with a democratic organisation of society," and, in fact, "its objects will be served the more effectively if the controls inherent in it are voluntarily accepted by the community and only enforced with its consent." That is why they regard the establishment of a national government as an essential pre-condition of successful planning; for only such a government which is representative of the large masses in the country can evoke cooperation of the people.

# On the crucifix of the dual standard

P.R. Brahmananda

RECENT INTERNATIONAL monetary developments have the flavour of the classic tragi-comedy, tragedy to some and comedy to others. Since 1973 when the oil prices started zooming up, reserves, largely in dollars, started accumulating with the oil-exporting countries. The action of the primary exporters in obtaining a boost to the prices of their exports through concerted action upset the international distribution of reserves. The cut in oil exports has led to a significant reduction in the growth-rate of the developed world. Comparative cost ratios have been jolted. The problem for the developed countries cannot be solved by monetary expansion. We have recently seen hectic efforts to find a solution to the recycling problem. Instead of the third world, the developed countries became acutely conscious of reserves; so began the quest for a new role for SDRs and for IMF special facilities. In the process the market price of gold has become a convenient instrument for the revaluation of reserves. So, we see, an informal gold-standard emerging among the developed countries and a SDR-cum-dollar standard, both (SDRs and dollars) technically delinked from gold, being confronted to the third world, which consists of all the oil-exporting countries. Thus, we are on the horns of world inflation which hitherto, has already deprived the primary exporters of their just share in gains-of-trade. This paper touches on all these issues and pleades for a mission of justice to the third world.

### basic standpoints

I am thankful to the organisers of the Seminar on International Trade and Economic Development — arranged in connection with the visit of Professor Peter B. Kenen — for giving me an opportunity to present, or rather to develop further, some basic standpoints, flowing from the classical (or neo-classical) tradition, on recent international monetary developments. Over the past few years, these developments have been undergoing almost a thorough revolution. Unfortunately, events in this sphere are running faster

Text of a speech delivered at the seminar on "International Trade and Economic Development" held recently in New Delhi under the auspices of the Indo-American Chamber of Commerce and US Information Service.

than the thinking among most economists.

Three angles, or frameworks, of economic analysis have been applied to interpret the recent international monetary developments. The adherents to the 'Keynesian', or rather the 'neo-Keynesian', (or more appropriately the 'Cassel-Keynes') angle has been emphasising the non-existence of an automatic and orderly set of international arrangements to expand the international liquidity base at a sufficiently fast rate, and at suitable intervals as the crucial lacuna in the present system.

### macro-equilibrium

One may recollect that Keynes's 'Money', in the 'Treatise' and in the 'General Theory', was some multiple of the value of gold reserves. Unemployment in capitalist countries, he argued, arises simply because of the inability of each country to obtain for itself a sufficiently large, and elastic, international liquidity base for its money supply such that through domestic monetary expansion, the interest rate can be lowered, thus facilitating the attainment of macro-equilibrium at a larger volume of investment, employment and real income.

Keynes had a strong belief that money supply in each country, in an international system, could not be endogenously determined. One might recollect here his suggestion, during the wake of the '30 depression years, (period to Roosevelt's decision to move up the gold price) for an internationally conceived programme of the issuance of gold bonds, which would supplement gold reserves. Obviously in this arrangement, though he visualised some

favourable modification for the UK, the new gold bonds would be distributed largely in proportion to the initial holdings of the gold reserves. By and large, this arrangement might be deemed to be a surrogate of that for the revision in the market price of gold. It is interesting that perhaps alone among the followers of the Keynesian tradition, Harrod has been pleading for this sort of a solution.

### other suggestions

True, there are others who have suggested arrangements for a revision in the gold price, but they in turn want such a revival to be coupled with the establishment of rules simulating gold standard. One might broadly conceive of the Keynesian angle as being based upon a fundamental fear that, in the absence of an adequate international liquidity base, there would tend to emerge a sudden possibility of a deflation of demand leading to world depression.

The Damocles sword of the threat of a world slump would hang over the heads of central bankers in an international world wherein monetary expansion in each country was conditional upon expansion of gold reserves. The reform arrangements which have been suggested for a massive rate of expansion of Special Drawing Rights (SDR) can be said to flow from the Keynesian angle, though, in its extreme, some proponents of the 'Keynesian' angle would envisage an abandonment of any role for gold in the world system. I am not sure, I stand to be corrected here, whether Keynes ever visualised a completely fiat-based international monetary system, as the extreme Triffinites sometimes claim, [on P. 358 of 'Essays in Persuasion' (*Collected Writings* Vol. IX)]. Keynes (1933) visualises the need also for a reduction in international money if prices are rising 'too much'. This may explain why he was not in favour of a straightforward rise in gold price. Keynes at best was for stable long-term prices. He could not have acquiesced in the present inflationary orgy.

A second angle, which might be rightly called as the neo-classical angle, has the

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emphasis on a system of perfectly flexible rates of exchange, with no internationally agreed base for liquid reserves and with no role for the IMF, or any such institution whatsoever. In high neo-classical theory, production flows as a result of application of labour to pre-existent and ready-for-use machinery and plant; the cost-prices of such machinery and plant, through regress in time, are capable of being reduced wholly into sums of wages and/or profits; wages and/or profits and/or factor shares are paid at the end of the period of production. In other words, neo-classical theory has no role for pre-existent produced stocks; for commodities as input stocks, without which no production can ensue in any period — current or in remote past — through regress. Obviously this strategy would imply that receipts and payments can, and do, synchronise just as inputs and outputs are deemed to synchronise. There is really no problem of reserves. No need for them. There always exists such possibility through flexible prices, wages, etc in each country such that instantaneously as it were, exports can be counterbalanced by imports.

A third angle is the neo-classical standpoint which maintains that in a world in which, each or most countries are dependent on others for crucial inputs, and wherein, production lags, apart from transport lags, are extremely important, international reserves are a necessary condition for obtaining capacity-utilisation of its usable resources. Gross national product etc. are causally linked with the levels of reserves or the ease of access thereto. Reserves in this standpoint are a proxy for pre-existent input stocks, which are limitational to the production processes of the country. A second feature of the neo-classical angle is that in an international economy, there has to be some common absolute measure and store of value. Gold fulfils these roles most effectively in an international economy; hence, the neo-classical standpoint would emphasise an appropriate and central role for gold in any scheme for orderly international trade and capital flows.

### role of gold

The system of flexible exchange rates and or the scheme of Special Drawing Rights, whose value is linked to a composite of exchange rates of these countries, cannot serve the purpose of a common inter-temporal measure and store of value. The classicists would, therefore, assert that the evolution of international monetary arrangements will, of necessity, be such as to involve — within the IMF system or

outside of it — an extremely important role for gold, at a price which would be governed by international market forces. Gold will then have to continue to be a rival or a dominating standard of international value. Recognition of this would facilitate a better system of international arrangements.

There are not many academic adherents (Helperin, Rueff and this writer, are drops in the ocean of academic economists) of the gold standard. A full restatement of the classical theory of international liquidity has been provided in *Gold-Money Rift — A Classical Theory of International Liquidity* (Bombay, 1969). I may be forgiven for a reference to this work; for, as far as I am aware, there is no other comprehensive treatment in the classical tradition as modernised by the neo-Ricardians. That book provides an interpretation different from the neo-Keynesian (or Triffinian) and the neo-classical one (Machlupianish, and may I say, Friedmannian!). Friedman has gone on record for having pleaded for the gold standard as the best system. (How does this view go with his monetary theory which postulates endogeneity for the economy in money supply!) Since that cannot be, the next best would be the system of floating rates. It would be interesting to know what his reaction would be now that the fiction of the official price of gold has disappeared and sooner or later countries would be obtaining freedom to buy and sell gold amongst each other and also through the markets.

### no explanation

From a strictly theoretical viewpoint, the Keynesian angle is unable to explain the monetary developments in the post-Second World War period. For example, why have interest rates, both long and short, been rising in almost all developed countries? This can be accounted for by two reasons: (1) the delayed and continued adjustment for creeping inflation, actual and expected; and (2) an expectation of prolonged capital or 'real finance' shortage in the world. Neither of these explanations, which essentially are not contradictory, can be reconciled with Keynesian or neo-Keynesian theory. The Keynesian angle cannot also explain why it has not been possible to banish gold from the (accounting) vaults of central banks. The triumph of the market-price over the (obsolete) official price proves conclusively that gold is not a barbarous relic. It demonstrates that the international medium cannot be based upon fiat. The world of interna-

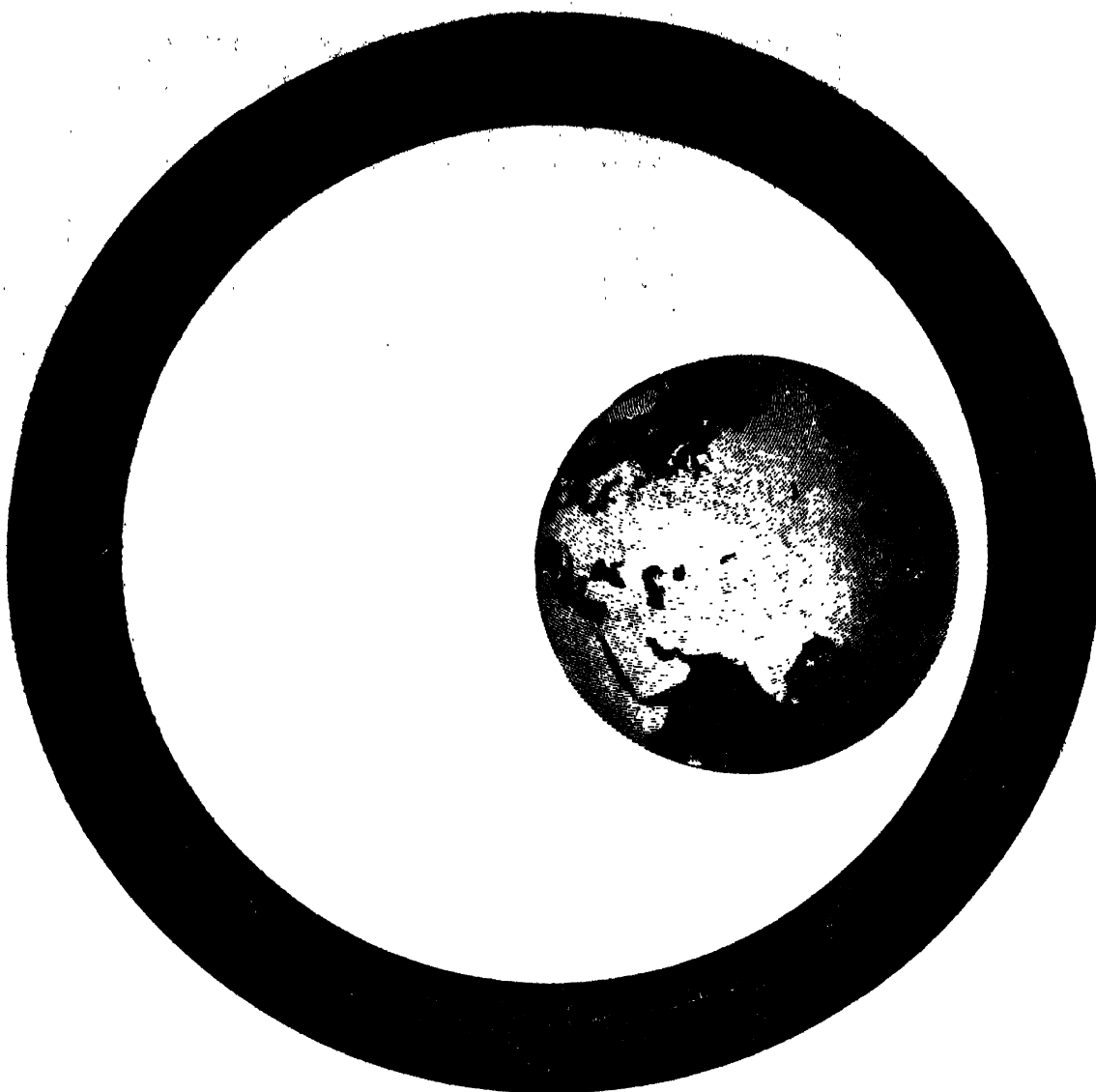
tional trade and payments is not the 'golden age' of Joan Robinson or the 'steady state' of Solow. The various political uncertainties and differing experiences, fears and goals of different nations and the perennial conflicts between quests for freedom, justice and power, all point out to the tremendous practical, apart from theoretical, difficulties in the way of a fiat-based international money.

### pertinent questions

The neo-classical angle has also failed to interpret and forecast the reality correctly; for, the introduction of a market price of gold in terms of which transactions between countries can take place, brings into focus the reality of an absolute international standard. Within the IMF system, SDRs may have a place; but then now that SDRs are de-linked from gold, will it not follow that if all the major currencies reduce their exchange values in terms of gold, the gold value of SDR too would have gone down? If the market price of gold, in terms of which countries may revalue their gold reserves, tends to go up through time, will not SDRs also tend to go down in their gold values? What prevents central banks from revaluing all their exchange reserves in terms of gold? In a way, to the extent that, in course of time, the central banks revalue their gold reserves in terms of the latter's market price and are eager to enter into trade and capital transactions through the settlement media of gold, and to the extent to which inter-country loans, or loans within each country may carry gold guarantee in terms of market or market-price related price of gold, will not the SDRs tend to become a parvenu?

We may note that SDRs cannot become a convenient medium of settlement for private transactions. All these should make one 'take with cartloads of salt' any deduction that simply because the IMF abolishes the official price of gold, gold has been banished! More often than not, when you throw something out of the window, that which is thrown out, will re-enter from the door!

A most glaring weakness of neo-classical trade theory is its inability to explain the strong and enduring shift in terms of trade due to the oil crisis. Terms of trade and import and export prices were deemed as naturally given factors incapable of a permanent jolt due to concerted-policy arrangements from one group of countries. The notion of recycling postulates lags,



## The world had nothing before it got zero

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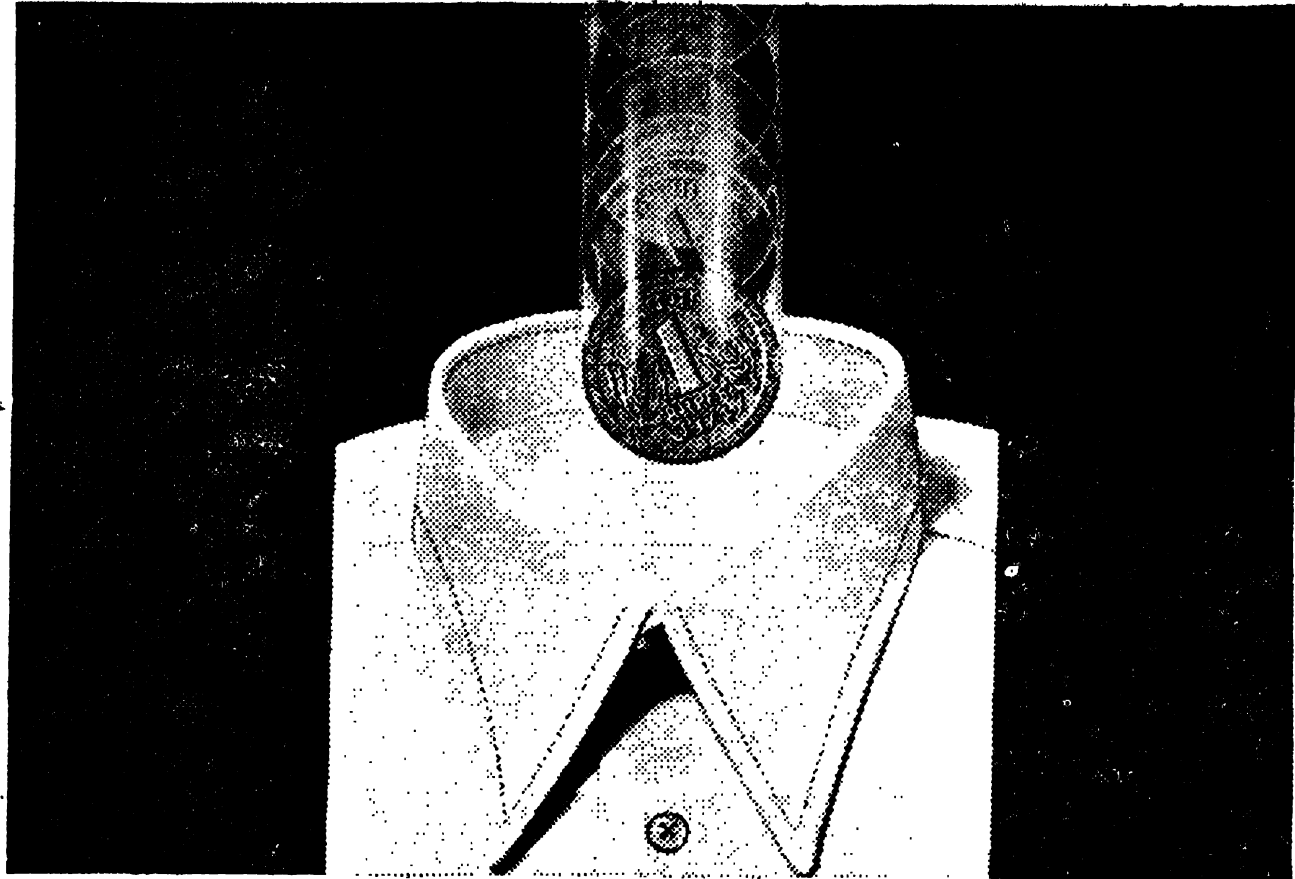
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also rather long, and hence the need for reserves and 'credit facilities'!

What are the essentials of the classical standpoint on International Trade and Money?

1. In each country there tends to be a stable relation between the value of gold reserves and the supply of money, of which currency and deposits may form the whole portion without there being any actual gold coins.

2. The above relation expressed in terms of the ratio of gold reserves to money is capable of change in a downward direction through a natural evolutionary process if violent disturbances affecting the confidence of people in the monetary system do not intermittently occur.

3. The price of gold in terms of different currencies is outside the control of any single central bank or any single sovereign country. There tends to be a stability in the price of gold in terms of each country's currency.

4. The stability of the exchange rate of one currency *vis-a-vis* the other is facilitated by the operation of the 'rules' of the gold standard, the most important of these rules is that such adjustments in the supply of money and interest rates in each country occur as to cause desirable variations in the levels of prices and money incomes and in the trading pattern.

5. Each country is deemed to follow broadly a policy of stabilisation of the money measure of the net productivity of labour. Since the implications of the classical standpoint are not very obvious, at least in the current day popular literature, some elaboration is required. (A fuller discussion of the respect in which the Rules need modification in the light of changes in the organisation of the developed economic systems is contained in Chapter XII of 'Gold-Money Rift').

### incorrect assessment

It is incorrect to imagine that the classical standpoint implies a waste of productive resources in the mining of gold. The ratio between gold and money can be stabilised at any low value provided the economic arrangements are credible — not merely intrinsically credible, but deemed to be so in the trading and banking circles of the international community. Given the different ratios in different countries, the volume of money supply in each country may be deemed to be exogenously determined; an improvement in the measure of productivity per unit of labour

would lead to a fall in the relative prices of the commodities in whose production productivity has increased, and there would tend to be a general fall in the level of prices as a whole. This would imply some rise in the level of real wage rates. As exports would rise, reserves would eventually go up and money supply would tend to go up. The gains of productivity would be transferred to the people, producers and consumers, of other countries.

### real wages

However, any general improvement in productivity anywhere in the trading world as a whole cannot but lead to a general rise in the real wage rates, and/or in employment, where it is due to shortage in the wage-fund, and such a rise would tend to be sustained, provided induced population growth changes do not take away the gains. In order to maintain real wages on a continuously rising trend, each country will have to be ahead of the other in productivity improvements. What the classical standpoint maintains here is that, for any given productivity change, only that measure of improvement in the well-being in the initiating country would be sustained as would belong to the entire world. True, over the longer period, productivity improvements in gold too may occur leading to gold exports in a commodity form from the gold-producing country, culminating in increases in money supply and prices, and money wage-rates. But note that rises

in money wage rates are lagged. So long as productivity increases in non-gold commodities are continuously occurring, there tends to be a straightforward improvement in the level of real wages all around.

It is extremely important to realise that even a country in whose production conditions, diminishing returns would be accruing and/or no improvements in productivity had occurred, would be gaining through an improvement in its terms of trade. The fundamental rationale of the classical standpoint is the emphasis on the stability of the money value of the net product of labour, thus guaranteeing in the manufacturing countries, subject to increasing returns, a secular trend of fall in money prices of such products and corresponding rises in real wage rates as measured in the access to these products. At the same time, for the diminishing-return-product-dominated countries, gains would accrue because of the improvements in the terms of trade. Such improvements in the terms of trade in favour of the primary-products-exporting countries is conditional essentially upon the observance of the rule of stability in the money value of the net productivity of labour.

One may characterise an international system in which for each country money supply is exogenously determined as a neutral international monetary system. It is obvious that any system of rules by means of which the manufacturing count-

TABLE I

Rates of Growth of Crucial Liquidity and GNP Measures: The Rich Eleven

(Compound Rates)

|                                                          | 1938-51 | 1951-61 | 1961-72 | 1938-61 | 1938-72 | 1951-72 |
|----------------------------------------------------------|---------|---------|---------|---------|---------|---------|
| 1. Money <sup>1</sup>                                    | 8.17    | 4.50    | 8.40    | 6.56    | 7.16    | 6.51    |
| 2. Gross External Liabilities and/or Assets <sup>2</sup> | 7.85    | 5.17    | 9.34    | 6.66    | 7.13    | 7.32    |
| 3. Gross National Product Current Prices <sup>3</sup>    | 8.17    | 6.24    | 8.32    | 7.32    | 7.99    | 7.92    |
| 4. Official Reserves <sup>4</sup>                        | 3.16    | 2.29    | 7.10    | 3.06    | 4.35    | 5.08    |
| 5. Gold <sup>5</sup>                                     | 1.72    | —       | —       | 1.51    | .83     | .30     |
| 6. Real GNP                                              | 2.16    | —       | —       | —       | 3.35    | 4.09    |
| 7. Quantum of Trade <sup>6</sup>                         | 1.93    | 6.12    | 8.99    | 3.73    | 5.41    | 7.62    |
| 8. Unit Value of Traded Goods <sup>7</sup>               | 7.45    | —       | 2.19    | 3.84    | 3.30    | 0.81    |

<sup>1</sup> In US dollars with adjustments for parity changes. <sup>2</sup> The author's concept (vide 'Gold-Money Rift', pp. 314-20). GELA includes official reserves as in International Financial Statistics (row 4 here) plus all other short-term external liabilities of different countries including of US, as reported in IFS. <sup>3</sup> In US dollars. <sup>4</sup> As from IFS; figures in US dollars. <sup>5</sup> At official price. <sup>6</sup> & <sup>7</sup> From UN's Monthly Bulletin of Statistics. Refers to the whole world.



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ries allow prices and money wages to be held constant in a context of improvements in productivity is unneutral from the angle of the primary-product exporting countries. Further, a system which permits a continuous rise in the level of money prices of products and in which productivity changes are occurring at a fast rate and of money wage rates is not merely not neutral, but violating the fundamental conditions of classical justice. If the implications of the above standpoint are accepted, it is clear that it is only under conditions of strict gold standard that the primary - product - exporting - countries would tend to get a measure of justice. The gold standard thus is a friend of the poor countries. As we shall point out later, throughout the post-Second-World-War period, the productivity of labour in the developed countries has been rising at a compound rate of more than three per cent per annum, but the level of export prices of the products in these countries has been rising at nearly one per cent per annum. Imagine the colossal potential loss which the poor third world has suffered during the entire post-Second-World-War period as a result of the non-existence of the gold standard.

### real income equivalent

According to my rough estimate, the price level of exports of the developed countries should have fallen from 100 in 1938 to about 20 or so in 1970. Even assuming that the money prices of exports of primary products would have been halved, there would have been an improvement in the index of terms of trade of the primary-product-exporting countries by about 150 per cent or so. The real income equivalent of the gains over this period is many times the total aid that the developed countries have given to the underdeveloped countries. But the domination of the neo-classical and neo-Keynesian economists has been so pervasive in the minds of spokesmen of the underdeveloped countries that the strongest attacks against the gold standard have come from those whose potential gains have been expropriated from them because of the absence of the gold standard! Keynes' phrase that "gold is a barbarous relic" has affected the minds of the economists of the underdeveloped countries so greatly that they would rather beg and cringe for charity rather than demand justice and be deemed barbaric, crankish or obsolete! Can orthodox western economics boast of a greater triumph than this? Strangely enough, not even Raul Prebisch appears to have pleaded for the reintroduction of the gold

standard or of the stimulation of rules as per the old standard.

Often it has been pointed that the stability in the ratio between gold and money in each country cannot be obtained under conditions in which a country's trade is a small portion of its GNP. For example, cannot a country such as the USA deviate from the stability rule for quite some length of years? What this points out is that the adjustment process for a large and trade-independent country such as the USA is prolonged. Even in the US, over the longer run, trade and capital flows are important. There are a number of inputs for which the US is heavily dependent upon the rest of the world. It is not so much the proportion of trade to GNP, but how important the imported inputs are in the matrix of production that clinches the issue. As we shall point out later, the magnified crisis in GNP and trade that is triggered by oil shortfalls proves our point.

As a result of the impact of the so-called Keynesian theory in the post-Second-World War period and the encouragement which the IMF arrangements gave to the popularisation of the gold exchange standard, what came to prevail in the post Second-World-War period is not a gold-based monetary standard, but a gold-based-liabilities-based monetary standard.

The proportion of gold value at the official price to total reserves went on diminishing. But the world has paid a heavy price for

its prolonged deviation from the rules of the strict gold standard. What has come about is not merely a process of headlong inflation, but also two sorts of massive forced savings imposed on the world: the first case of forced savings is that imposed by the US monetary and fiscal policy upon the European countries; the second which is much more important and ethically more disturbing is that imposed by the US and Europe jointly upon the third world countries.

A second criticism that is levelled against the gold standard is that the growth-rate of supplies of gold is far too meagre in relation to the requirements of a media for international transactions and settlements. There is a great error here. If the gold standard conditions had prevailed the real value of gold would have been constantly moved up; this would have implied a higher rate of production of gold than would have been the case otherwise. Besides, as prices would be falling and the trade volume would be growing, the requirement of media would be growing more slowly than the latter, because of the fall in price level.

A third, and a rather uninformed criticism, levelled against the gold standard is that the supplies would tend to grow by fits and starts; whereas the supplies of SDRs, it is said, can be made to grow according to a steady rule. It is realised that the growth rate of production in the world as a whole depends upon real factors and

TABLE II

### Secular Trends in Reserves, Money, Output, Trade and Prices

|                                                   | 1938 | 1951 | 1956 | 1961 | 1966 | 1969 | 1970 | 1972 |
|---------------------------------------------------|------|------|------|------|------|------|------|------|
| A. Total Official Reserves                        | 24   | 36   | 42   | 48   | 51   | 53   | 63   | 102  |
| B. Gold Reserves                                  | 24   | 30   | 32   | 39   | 35   | 31   | 30   | 32   |
| C. Total Gross External Liquid Liabilities/Assets | 24   | 64   | 78   | 106  | 134  | 148  | 179  | 283  |
| D. Money                                          | 62   | 172  | 207  | 267  | 367  | 432  | 474  | 648  |
| E. Imports                                        | 15   | 44   | 58   | 80   | 128  | 178  | 210  | 272  |
| F. Gross National Product at Current Prices       | 180  | 499  | 673  | 914  | 1356 | 1775 | 1921 | 2462 |
| G. Index of GNP at Constant Prices                | 100  | 132  | —    | —    | 230  | 251  | 271  | 301  |
| H. Index of Quantum of Trade                      | 74   | 95   | 128  | 172  | 260  | 348  | 379  | 444  |
| I. Index of Unit Value of Traded Goods            | 42   | 107  | 102  | 100  | 105  | 107  | 112  | 127  |

A to G refer to Rich Eleven. A to F in billions of current US dollars. H & I to all developed countries.

## POINTS OF VIEW

there tends to be some fluctuation in the growth rate. As a result, the effect of a steady rate of growth of SDRs cannot by itself tend to overcome the fluctuating nature of the growth rate in production. Besides, we can always conceive of such an international system as would, through gold buffer stock operations, enable as desirable and as steady a rate of growth in gold supplies as one desires.

### empirical reality

Let us briefly examine whether the classical analytical framework explains adequately the empirical reality of the post-Second-War experience. Table I (p. 387) gives the (compound) annual rates of key reserve magnitudes, money supply, trade and GNP at current and constant prices. Data over several time-intervals are provided. The data pertaining to magnitudes 1 to 6 refers to the rich eleven countries together. (These are the USA, the UK, France, Germany, Italy, Belgium, Canada, the Netherlands, Japan, Sweden and Switzerland). Together they account for more than 80 per cent of world's GNP, trade quantum and reserve. The money units are in US dollars with adjustments for exchange parities of the US dollar with other currencies.

Money supply of the rich eleven grew at a compound rate of 4½ per cent between 1951 and 1961 but this rate jumped to 8.4 per cent for 1961-72. The trade quantum grew at 6.12 per cent between 1951 to 1961 but at 8.99 per cent between 1961-72. However GNP at current prices grew at 6.24 per cent for 1951-61 but jumped to a growth rate of 8.32 per cent between 1961 and 1972. The rich world's money supply in recent periods shows a closer affinity with movements in trade quantum than with those in GNP. A disturbing finding for the Friedmannians. Friedman believes in the internal autonomy of the factors determining money supply. This has been challenged by me in 'Gold-Money Rift'. The data shows that money follows international trade etc. No country, certainly the non-US world, has autonomy in its money supply. Even the US has to bow to international compulsions over the long run. To understand the post-war behaviour of the world's money, Ricardo and David Hume are better guides than Milton Friedman. What is also interesting is that between 1961 to 1972 the money growth rate was more than equal to that during 1938-51. Who says war and its aftermath are the sole promoters of inflation?

Between 1938 and 1951 the income-

velocity was about constant, it rose steeply during 1951 to 1961 but tended to become constant during 1961 to 1972. This is interesting because according to Lord Kaldor there is no upper limit to velocity. Interest rates, all of them, long, medium and short, have been seeking to rise sky-high to meet Almighty during 1961 to 1972. Velocity should have galloped. That this did not happen demonstrates the sanity of yet another very eminent bit of classical truth. Income-velocity does have a ceiling.

We noted that currently the growth-rate in money supply is higher than that during the war and immediate post-war period. The former rate is very much higher than the growth rate in GNP. Since productivity rates have been continuously rising in these countries and these have been rising much faster in the export sectors of these countries, there should have been a pronounced tendency to fall in the unit value of traded goods. It was only during 1951-61 that this value was tending to fall. This was also the period wherein the growth rate in money supply was less than that in the quantum of trade. It follows that the excess of the growth rate in money supply over GNP and over the growth rate of gold reserves has been responsible for the rising tendency of the unit value of traded goods during 1961-72 and for preventing it from falling at a faster rate during 1951-61. Taking the periods 1938-72 and 1951-72 there has been a rising tendency in the unit value of traded goods.

### source of injustice

This then is the source of injustice in the distribution of gains from trade. If there had been an observance of gold standard rules the rich world's money supply would have grown by less than three per cent per annum; for, with a rise in the commodity-value of gold, the growth rate in production of gold would have risen. A reasonable assumption is that gold growth would have been at a maximum compound rate of three per cent per annum leading to a maximum growth rate in money supply of three per cent. This is less than the growth rate in real GNP. We should have witnessed a rather steep falling tendency in the unit value of traded goods. The export prices of the commodities of less developed world too would have a falling tendency. But as diminishing returns are the characteristic feature here, the index of terms of trade would have moved massively in favour of the third world countries.

The big question is as to why and how

the growth rate in money supply has deviated from the classical rule that it should be close to the rate of growth of old reserves. There are three answers to this. The first states that had not the money supply grown at the rate that it has the world would have faced a depression. The explanation proceeds from country to country by resorting to the hypothesis of the Phillips' curve. This explanation appears to depend upon the hypothesis that for the (rich) world as a whole the growth rate in money-wages and in prices fixes the growth rate in money supply. The second and related hypothesis is that within each country too money supply is autonomous. However these two hypotheses cannot explain the reason why the international world is in series of crisis. Why is it that the distribution of the burden of adjustment is also an important issue? What explains why different countries are intermeshed with each other?

### missing the issue

A second explanation is that the US has helped to prevent the world from plunging into a depression by being the leader in money supply generation. After all the US is just satisfying the growing liquidity hunger (or thirst) of the world. Unfortunately this explanation misses the issue of justice. The two sorts of forced savings imposed on the world have led to a re-

TABLE III

#### Some Key Ratios

|         | 1938 | 1951 | 1961 | 1970 | 1972  |
|---------|------|------|------|------|-------|
| Imports | --   | 1.2  | 1.7  | 3.2  | 2.6   |
| OLR     |      |      |      |      |       |
| Imports | 8%   | 9%   | 9%   | 10%  | 11%   |
| GNP     |      |      |      |      |       |
| GELA    | 13%  | 13%  | 12%  | 9%   | 11.5% |
| G.N.P   |      |      |      |      |       |
| Money   | 2.6  | 5.7  | 7.9  | 16.0 | 20.0  |
| Gold    |      |      |      |      |       |
| Money   | 2.6  | 2.7  | 2.5  | 2.7  | 2.3   |
| GELA    |      |      |      |      |       |
| OLR     | 1.0  | 1.2  | 1.4  | 2.1  | 3.5   |
| Gold    |      |      |      |      |       |
| GELA    | 1.0  | 2.1  | 3.1  | 5.8  | 9.4   |
| Gold    |      |      |      |      |       |
| GELA    | —    | 1.8  | 2.2  | 2.8  | 2.8   |
| OLR     |      |      |      |      |       |
| GNP     | —    | 2.9  | 3.4  | 4.0  | 3.8   |
| Money   |      |      |      |      |       |

## POINTS OF VIEW

bellion against the theory of the US as a custodian.

It is no good rationalising by theory the imperfections and injustices of a world which initially itself was never a harmonic ordered comity. The third explanation offered in 'Gold-Money Rift' is that the post-war monetary arrangements as visualised in Bretton Woods contained the seeds of the world inflation. The gold-exchange standard is a palpably unjust and unneutral mechanism. Its inequities in a world of unequal economic power of different countries came to a surface when the European nations struck at the credibility basis by holding gold reserves and thus not enabling an automatic recycling process. The world's money supply, according to the Bretton Woods arrangements was made a multiple of the willingness of the US to incur external 'liabilities'. The measure of such willingness was over the long-run the basis of the US money supply and of its strength in balance of payments.

### external liabilities

The external liabilities of the US were the assets of the foreign central banks and thus served as double-base for monetary expansion. Table III bears this out very clearly. Money supply's growth rate has been very close to the growth rate of GELA. There is an extraordinary stability in the money to GELA ratio. This ratio was 2.6 in 1938, 2.7 in 1951, 2.5 in 1961, 2.7 in 1970. But by 1972 it had come down to 2.3. This is the origin of the present crisis. For till recently the European countries were resisting the GELA standard. Now that the primary-product-exporting countries are asserting themselves the US and the European countries are coming together. For increasingly from now on an increasing share of reserves in the form of dollars etc. will be held by the primary-producers, by mostly the oil-exporting countries. Together the west (and Japan) can transfer the burden of surplus dollars to the third world. The latter can hold the baby. Why not?

True there is some chutney for the third world. This is the much-vaunted oil facility. But the third world has not noted that the cake has gone. The crumbs belong to the poor. In place of the link, the oil facility emerges. The major claimants on the SDRs will be the rich world.

What a pity! Some years ago this writer put forth a plea that countries such as India should either plea for the restoration of the gold standard and/or support the plea for

a rise in the gold price, the profits on the rise being distributed to the third world. He termed the SDR's as *Surrogate Dollar Reserves*. He was thinking of the European countries as ultimate holders of these reserves. But he was mistaken. The bulk of these reserves will now be held by the OPEC countries. We now understand why the market gold price has now become respectable signal to the central banks. The SDRs are now delinked from gold. The developed ones will perhaps use the gold for trading settlements among themselves and the SDRs will come home to the third world.

That of course would be a Dual Standard. But then it has always been so. This paper has been written just to prod the conscience of the leading economists of the western world. Long ago Jacques Rueff stated that the profits arising out of the gold price revision should be shared with the third world. The official spokesmen of these countries laughed at the idea of gold staging a come back. Now it has come back but kept outside the IMF. Perhaps there was a fear that the third world countries would have claimed most of the gold and sat on these reserves. Now there is

no such possibility. The barbarous relic must be kept away from the less developed countries.

Table IV gives some revealing data regarding the distribution of reserves after the informal arrangements for the restoration of the market price of gold to its due status in the computation of reserves. Gold now becomes the single most important reserve asset. The total of all official reserves gets boosted tremendously. GELA too goes up. The less developed countries get their relative share of reserves reduced. Obviously as the price level would go up by the proportionate extent of the increase in total reserves their absolute share gets reduced. The Middel-East countries, the OPEC group gets a substantial relative and absolute reduction in their share of reserves. (Oil price versus gold-price?) We should now expect two consequences. But then will the rich continue to allow the expansion of dollars and other exchange as reserves. A possibility is that SDRs may now be permitted to be expanded. In that context as noted earlier the oil-exporting countries will be surfeit with SDRs. And these may be recycled. This is the optimistic view. Suppose along with SDRs

TABLE IV

### Reserves (Formal plus Informal) in the New Set-up

What revaluing official gold to \$170.4 would mean (September/October 1974)

|                             | Gold<br>reserves<br>at \$ 42.22 | Gold<br>reserves<br>at \$ 170.4 | Total<br>reserves<br>(gold at<br>\$42.22) | Total<br>reserves<br>(gold at<br>\$ 170.4) | % increase<br>in total<br>if gold<br>revalued to<br>\$170.4 |
|-----------------------------|---------------------------------|---------------------------------|-------------------------------------------|--------------------------------------------|-------------------------------------------------------------|
| <b>World</b>                | 42.4                            | 169.8                           | 210.3                                     | 337.7                                      | 61                                                          |
| <b>Industrial Europe</b>    | 21.3                            | 85.4                            | 75.3                                      | 139.4                                      | 85                                                          |
| Germany, W.                 | 4.9                             | 19.7                            | 32.1                                      | 46.9                                       | 46                                                          |
| France                      | 4.2                             | 16.9                            | 8.9                                       | 21.6                                       | 142                                                         |
| Italy                       | 3.4                             | 13.8                            | 6.9                                       | 17.3                                       | 150                                                         |
| Switzerland                 | 3.5                             | 13.9                            | 7.5                                       | 17.9                                       | 139                                                         |
| Netherlands                 | 2.3                             | 9.1                             | 7.0                                       | 13.8                                       | 98                                                          |
| Belgium                     | 1.8                             | 7.1                             | 5.3                                       | 10.6                                       | 100                                                         |
| UK                          | 0.9                             | 3.5                             | 7.5                                       | 10.1                                       | 35                                                          |
| <b>USA</b>                  | 11.5                            | 46.2                            | 15.6                                      | 50.5                                       | 219                                                         |
| <b>Japan</b>                | 0.9                             | 3.5                             | 13.5                                      | 16.1                                       | 20                                                          |
| <b>Less Developed Areas</b> | 3.8                             | 15.0                            | 70.7                                      | 81.9                                       | 16                                                          |
| Of which:                   |                                 |                                 |                                           |                                            |                                                             |
| Nine Mid-East Countries     | 1.2                             | 4.8                             | 26.2                                      | 29.8                                       | 14                                                          |

Source: IMF *International Financial Statistics*, December 1974; and *Financial Times*, Friday, January 10, 1975.

## POINTS OF VIEW

dollars keep on pouring. In that case the struggle will be between SDRs and dollars. There is one window from headlong inflation. That is the rising tendency of gold price. There would be a tendency for oil price to be linked to the market-ex-

change rate of dollars or SDRs with gold. This again may lead to prolonged world inflation.

Thus we are poised on the two horns of world inflation, whatever the course. But

inflation causes redistributions, not all of which are welcome. There is only one solution of wisdom and justice. That is to banish both SDRs and dollars from the reserve status. That course would also be just.

# Bhilai's commendable progress

R. C. Ummat

PRODUCTION-WISE, the Bhilai steel plant (BSP), which celebrated 20 years of Indo-Soviet economic collaboration on February 2, may not be faring as well during the current financial year as it did two years ago. Yet considering the difficulties it had to encounter during the three months to June last, when railway operations were disrupted by unrest among railwaymen which culminated in the last May's strike by them, its overall performance this year has been commendable. The plant is expected to yield during the 12 months to the end of March 2.010 million tonnes ingot steel and 1.685 million tonnes saleable steel — corresponding to nearly 81 per cent of the rated capacity which is 2.5 million tonnes ingots and 1.9 million tonnes saleable products. Barring the three months to June last, it has, in fact, been working to nearly 87 per cent capacity.

## improved capacity

Last month the utilization of the ingot-making capacity improved to even as much as 93 per cent. In 1972-73 as a whole, the installed capacity could be utilised to slightly more than 90 per cent. Compared to 1973-74, production this year is anticipated to be higher by 206,000 tonnes ingots and 3,000 tonnes saleable steel. Had the railway strike not affected operations in April, May and June, the 1972-73 performance could have been easily equalled, if not excelled, this year. The railway strike affected the plant in two ways. First, although the overall supply of coal was well maintained — it improved from 188,000 tonnes in April to 229,000 tonnes in May and 250,000 tonnes in June — there was imbalance in the availability of different categories of coal. This hampered proper blending. Secondly, the slow movement of finished steel from the plant — partly on account of slackness in demand following curbs on construction activi-

vity, but mainly due to transportation difficulties — too had its impact on production, though to a limited extent.

Financially, the plant is expected to do much better this year. Even though there has been nearly 25 per cent cost escalation since 1973, due to higher prices of bought-in items such as coal and refractories, mounting costs of iron ore, limestone and dolomite from the captive mines, sizeable increases in the wage bill, water and electricity charges, etc., the net profit this year is likely to be much better than last year when it was about Rs 18 crores. To some extent the profitability of the plant has been improved by the realistic upward revision effected towards the close of 1973 in the sale prices of its wires and rods — which account for nearly 20 per cent of its saleable steel output. But the major contributory factor to increased profitability has been the significant reduction in the coke rate — from about 900 kgs. per tonne of steel to nearly 750 kgs. The profitability would have been even much higher had the plant not been made to supply rails to the railways at a loss of about Rs 250 per tonne.

## encouraging fact

The more encouraging fact about the plant, however, is that with its equipment in excellent shape, personnel well trained and labour not showing any significant unrest, it can — unlike the Rourkela and Durgapur steelworks — operate to the full rated capacity if adequate supplies of coal and refractories of the right quality can be ensured. For optimum coke pushing, the plant requires nearly 350,000 tonnes coking coal monthly, against which the supplies even last month — when the plant on some days operated to nearly 93 per cent capacity — did not exceed 300,000 tonnes. Some imports of refractories

have been effected from Japan as indigenous supplies, both quality-wise and quantity-wise, have not been adequate. Besides adequate supplies of coal and refractories, the full utilisation of the plant's capacity also requires — psychologically at least — coal stocks for seven days' consumption. Currently, they aggregate to about five days' consumption and that too after the Bharat Coking Coal Limited made special efforts to push up its output during the fortnight ending January 14 and the railways made available increased number of wagons. The supplies of limestone, dolomite and iron ore, of course, are no cause of concern. In fact, the production of iron ore currently from the captive mines of the plant far exceeds requirements. The surplus output has been offered to the other steelworks as well as for export.

## other measures

Although the ensuring of adequate quantities of coal and refractories of the right quality can help in achieving full utilization of the plant's capacity, two other measures, according to the management of the plant, can make the task much easier. These are adding of two more soaking pits and the laying of an epictial track in the blooming mill. One soaking pit has already been sanctioned; it is under construction. Sanction is awaited for the other soaking pit and also for the epictial track the detailed project report for which has already been prepared. An expeditious clearance of the two schemes is urgently called for as the investment involved — just a few crores of rupees — is not heavy compared to the wholesome results that can be obtained.

The above, however, does not imply that the plant management has no headaches. Recently, a major source of anxiety has developed on the water front. Due

## POINTS OF VIEW

to severe drought during the past two years in the Chattisgarh region of Madhya Pradesh where the plant is located, the water level in the rain-fed reservoirs, which supply water to the plant as well as the Bhilai township, has gone down to precariously low levels. To fully meet the requirements of the Plant, water supply to the township has been severely curtailed to about four hours a day. It might be reduced further to a couple of hours daily with a view to conserving water in case the monsoons are delayed. But if drought continues, the plant operations are bound to be affected. The plant management finds itself in this plight primarily due to the delayed sanctioning of the construction of the Mahanadi reservoir. This reservoir -- primarily an irrigation project -- is expected to be completed in about two years. Till then water supply can be a cause of serious concern if the rain god does to smile.

### substitute coal

With a view to overcoming the difficulties on the coal front, the plant has attempted to utilise during the last two months lower grades of coal from the Damoha and Kalichappa mines of the Coal Mining Authority in central India. Nearly 60,000 tonnes of this coal have been made use of. The trials, of course, have not been completely successful. Yet they are being vigorously pursued in the long-term interests of the plant. It is felt that if this coal can be washed so as to reduce its ash content from about 22 per cent currently to 16-17 per cent -- which is possible -- the coal problem of the plant can be solved even for the envisaged expansion programme. Incidentally, the power requirements of the expansion programme have been ensured by the state electricity board which is augmenting its generation capacity by 480 MW by 1976. Apprehensions about power supply had arisen recently in view of the growing requirements of the Korba aluminium complex.

The current expansion programme of the plant, which envisages the raising of its capacity to four million tonnes and diversification of the product-mix to include the manufacture of heavy plates required for various strategic purposes, ship-building and production of high pressure boilers, appears to have come under cloud due to financial stringency. It is scheduled to be completed by 1978-79 -- the final year of the current five-year Plan. Till now about Rs 40 crores have been spent on its implementation. Next year's requirements are estimated to be at least

Rs 80 crores. This allocation has not been finalised as yet. If adequate resources are not available, the programme may spill over to the next Plan period, even though SAIL sources are confident of accomplishing the task according to schedule. Besides the manufacture of heavy plates, the programme envisages introduction of continuous casting -- for the first time in the country. The plate mill, incidentally, will be the largest in Asia; it will be producing 3600 mm wide, 5 to 40 mm thick and 4 to 15 metres long heavy plates, initially to an annual capacity of 950,000 tonnes. Ultimately the capacity would be increased to 1.2 million tonnes when the plant is expanded to 4.8 million tonnes.

To be assisted by the Soviet Union, the expansion programme is now estimated to cost nearly Rs 1,000 crores, compared to the estimate of about Rs 280 crores when it was conceived about seven years ago. This is expected to affect the profitability of the plant a great deal. It is feared that unless the prices of plates are suitably revised by the time they start coming out of the expanded plant, heavy losses might have to be incurred. At the current prices of plates, the plant will be losing as much as Rs 168 crores per annum for about 25 years.

Actually by the time the plant is expan-

ded to four million tonnes capacity, it should be able to produce much more, for through an innovation permitted by the Soviet Union, which introduced it first at home, the existing blast furnaces can be made to yield nearly 50 per cent more steel within the same tapping time than they are doing at present. The innovation is the widening and deepening of the present blast furnaces at the two ends of the furnaces complex by 25 per cent each way so as to approximately double their capacity and the linking of the other eight blast furnaces and deepening them by 25 per cent to increase their capacity by about 30 per cent. Work has already been taken in hand at one end of the complex. Oxygen lancing has also been introduced. The reduction in the coke rate to 750 kgs. per tonne of steel has been brought about by this method.

It is further encouraging to note that the past experience is being utilised to the full in designing the new iron ore mine in the Daili range which will be feeding the expanded plant with iron ore. A number of modifications have been agreed to in the Russian detailed project report of the new mine, the most important among them being the use of auto transport, instead of rail transport, on the mine benches. This is expected to bring down mining costs significantly.

## RECORDS AND STATISTICS

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# In and around Pacific Asia--IV

V. Balasubramanian

MALAYSIA has been described as a country which just happened. I myself would say that it is a country which is still happening. The process has its negative side as well as its positive aspect. Let me get done with the former first.

Malaysia, like any other country, has its share of political controversies. There is however one issue on which all politicians and political parties, which have any sense of responsibility for the future of the country, are impressively in agreement. This is that Malaysia can become a confirmed fact of history only in terms of a multi-racial society in which its racial ingredients are brought into emotional harmony and cooperative political, social and economic existence. According to official statistics, the Malays constitute 44 per cent of the total population of 12 millions, the Chinese 36 per cent, Indo-Pakistanis nine per cent, the

enterprising Chinese soon went into trade and commerce, first in symbiotic relation with the British-dominated foreign trade sector and later as an increasingly independent constituent of the finance and commerce of the land. Those of Indian origin, by and large, remained wedded to work on the plantations although, as resident Indian communities grew, the native generations moved into retail trade, service industries and public employment; there was also a small community of Indian moneylenders who had first moved with the migration of labourers recruited for work on the plantations. When Malaysia came into existence in 1962, this was roughly the racial character and the economic structure of the federation (exclusive of Singapore which was then a member, but which seceded in 1965).

The Malays, who had become politi-

accepted the Malayan aspirations as legitimate, but he also thought that they should be realized in such a manner that emotional or political confrontations of a racial nature were avoided in the nascent polity of his country. This inevitably spelt a certain gradualism which the aroused expectations of the Malays found alien to their urgency. The resultant tensions were largely responsible for the racial riots of 1969 which became a turning point in Malaysian politics.

## profound impression

Those riots made a profound impression on the Chinese community which had suffered heavily during the disturbances. Large sections of that community realised that they had to come to terms with the Malayan quest for the first place in the country's economy. These sections also felt that the Chinese population would serve its interests best if it would throw in its political lot with the moderate, multi-racial political philosophy of the Alliance government of Tunku Abdul Rahman. There were however other Chinese political groups which took the different view that a specific Chinese point of view had to be identified and preserved in the context of the evolving polity of Malaysia. In the election of 1969 these groups as well as certain Malayan parties in opposition were able to put up an effective show at the state level, especially in Penang state, Kelantan and Sarawak. When Tun Abdul Razak, who was deputy prime minister to Tunku Abdul Rahman, succeeded to the prime ministership in 1970, he decided to employ his extremely practical talents to building up a consensus party on as broad a basis as possible. By cleverly cultivating men that mattered, he had by 1973 succeeded in bringing most of the major opposition parties into the ruling Coalition and thereby transforming it into a nine-party platform centred in the United Malays' National Organisation (UMNO).

This resulted in his National Front acquiring complete control in all the states as well as at the federal level. Having thus firmed up his political base and personal authority he was able to take several useful initiatives both in domestic eco-

## WINDOW ON THE WORLD

indigenous tribes of Sabah and Sarawak eight per cent and 'others' three per cent. There is no reason in theory why these racial categories should translate themselves into corresponding political groupings, but the fact is they do.

The explanation lies largely in the economic structuring of the Malaysian population. Historically, thanks to the limitations set by their small-peasant culture and the compulsions imposed on them by the British colonial rule, the Malays have been hewers of wood and drawers of water in their native land. The Chinese and the Indian immigrants originally came to work on the British plantations but the industrious and

cally conscious of both their grievances and their rights and privileges as the sons of the soil, naturally wanted to use their new-found political authority and leverage as the largest single racial community to improve their material circumstances and establish their presence in and control over the national economy in its various sectors. This meant primarily their increasing induction into trade and commerce, largely at the expense of the Chinese part of the population and their proliferation into the services and public employment substantially at the expense of the Indian part. The founding father of the Malaysian federation, Tunku Abdul Rahman, who was also its first prime minister, rightly,



economic affairs and in the area of Malaysia's external relations with her immediate neighbours as well as with China. In fact, the only considerable thorn in his political flesh was the communist guerilla movement which had become endemic in the area of Malaysia's border with Thailand.

Perhaps the most purposive programme in the Razak administration is the comprehensive strategy it has adopted to promote Malays' share in agriculture, trade, industry and the services. Special land settlement schemes have been devised for the particular benefit of this constituent of the Malaysian population and credit institutions set up for rendering assistance exclusively to Malayan peasants and small-scale industrialists. The country's industrialization programmes have been made to emphasize particularly the participation of Malays in the capital structure and labour force of new industries, while industrial and commercial undertakings are required to employ certain percentages (up to 30 per cent) of Malays as an obligatory requirement.

### sons of the soil

A remarkable aspect of this state of affairs is that the non-Malays, by and large, have come, to see the justice of the sons of the soil, described as "bumiputras" being helped through special measures to promote themselves to a prominent position in the economy of the land.

In the circumstances Tun Abdul Razak and his government were probably justified in assuming that they had masterminded an extremely delicate and potentially explosive process of political, economic and social re-structuring of the Malaysian community with an unexpectedly high degree of success. So much so, around the mid-months of 1974, the race riots of five years earlier had come to look like a bad dream. It was against this background that the prime minister opted for a general election in August of that year so that he could get his countrymen's retrospective endorsement of his policies of the previous four years as well as obtain a mandate from them to administer the country for another term in furtherance of his established policies. The appeal to the ballot box gave the ruling nine-party coalition, Barisan Nasional (National Front), a two-thirds majority in the federal parliament and control of all the 11 states in the federation. The opposition parties and independents who had fielded a total of 752 candidates for 424 seats, 107 in the federal parliament and 307 in the state

assemblies, were reduced to a notional presence in the country's legislatures. The main opposition group, the Democratic Action Party (DAP), won just nine seats in the federal legislature and a total of about 15 seats in the state assemblies. The Social Justice Party (Pekemas) got only one seat in the federal parliament. Other opposition groups were simply eliminated.

### 'unnecessary evil'

Election statistics, however, do not always tell the true story and seldom the whole truth of the story. Curiously enough, within weeks of Tun Abdul Razak and his ruling coalition sweeping the polls, stalwarts in the ruling party had started speculating whether democracy could not function as well if not better without the benefit of opposition parties. The Home minister, Tan Sri Ghazali Shafie, and Tunku Razaleigh, the head of Petronas (Oil Authority), reputedly the prime minister's probable choice for a successor, made statements which suggested that Malaysia would do well to go in for a one-party state. The Home minister in fact declared himself to be of the view that, in the circumstances of Malaysia of today, a conventional opposition was both unnecessary and an evil. Naturally observers of Malaysian politics have been trying to figure out what all this could mean.

It is no doubt true that the communist threat has shown no signs of going away. On the contrary, militant factions among the communists have lately been taking to talk of active armed struggle, partly because of internal tensions and dissensions in their organization. It is also being suspected that these extremists are having some success in contacting student activists in the cities. These developments, even if they are really more serious than they seem to be, however, cannot justify the kind of kite-flying which the Home minister or other leaders in the ruling coalition seem disposed to treat themselves to about the next stage in Malaysia's political evolution. The campaign against communist terrorists has for some time now settled down to a military operation pursued with varying degrees of intensity and equally varying degrees of success. There is no indication that the conventional opposition, as the Home minister has termed it, is coming in the way of this operation. An explanation for the reservations expressed in the ruling party circles about opposition parties may therefore have to be sought elsewhere.

Quite possibly, discontent among the Chinese is becoming a problem. Although

philosophically and intellectually the Chinese and Indian communities may have accepted the necessity and reasonableness of the bumiputras receiving increasing preference in all sectors of the economy, non-Malayan individuals and households, actually experiencing the specific impact of the squeeze on their employment or economic opportunities, are naturally beginning to wonder whether they are steadily being demoted to second-class citizenship in Malaysia's vaunted multi-racial policy. So long as the economy is booming, the non-Malays may not feel the pinch of the bumiputra policy too much but, in recent months, with growing inflation and a slump in strategic areas of the economy such as rubber and lumber and in industries such as textiles and electronics, the non-Malays are becoming more and more sensitive to being discriminated against in business, the services and education.

### peculiar case

The case of the Indians has its peculiarly pathetic aspects. The bulk of them is of plantation workers or labourers in marginal employment. Many of them has therefore lost their jobs or livelihood due to recession in the plantations. They are however not considered eligible for the various relief or resettlement schemes which the bumiputras, similarly placed, could take advantage of. It is a matter of tremendous concern for the Indian population in Malaysia that the government's land settlement scheme have completely left out Indian labourers thrown out of employment on the plantations. To make matters worse, their political representation in the ruling coalition is extremely feeble. Such political leaders as the community has are accused of having found cosy berths for themselves in the Establishment by adopting a policy of "me-tooism" naked and unashamed. One result of this jolt to the confidence in their future in Malaysia is that many Indians, who would have finally opted for Malaysian citizenship have, hesitated to do so. This of course places them at an even greater disadvantage in relation to the economic opportunities in their country of residence. Thus the integration of the Indian part with the rest of the Malaysian community has been proceeding less fast and less smoothly than it might have done under more favourable circumstances.

From the ruling coalition's point of view, however, the really major problem is the developing attitudes among the Malays themselves. While the bumiputra policies may have been pursued vigorously enough to cause uneasiness among non-Malays, it does not seem to have



been implemented effectively enough to improve the material conditions of the mass of the Malays themselves as much or as fast as possible. Apart from the fact that the Malays currently own just two per cent of all corporate assets in Malaysia, with the Chinese and the foreigners owning the rest, 22 per cent of the Malays earn less than M\$ 100 (about Rs 350) a month, as against 2.6 per cent of the Chinese and 1.3 per cent of the Indians. The average income of the Malay household is only M\$ 178.7 compared to M\$ 387.4 for the Chinese and M\$ 310.4 for the Indians. These differences correspond to the marked difference in income levels between the rural areas, where most of the Malays are concentrated and the urban areas, where most of the Chinese and the Indians live. About a third of the rural households earn below M\$ 100 a month, whereas less than 10 per cent of the urban households are similarly placed. Again, the average monthly income of rural households is less than half that of the urban households amounting to M\$ 435.

### wide gulf

Moreover, as education spreads in the rural areas and more and more Malays go to the towns for higher education or jobs, they are becoming more and more aware of the gulf that divides the Malayan rich from the Malayan poor as well as the leeway that the Malays as a whole have to make in relation to the Chinese and, to a less extent, the Indians. In political terms this dissatisfaction is translating itself into attitudes of dissent or protest directed against the elitist nature of leadership of the ruling coalition. The government, consequently, is being criticised more and more for trying to perpetuate itself by ignoring the structural reforms which may be necessary for linking the country's general economic development with real and rapid improvement in the living conditions of the mass of the people.

Although corruption has not become a major issue in Malaysian politics, the opposition parties did level charges of skulduggery against the ruling coalition during last year's election. There have also been stray cases of politicians in power being accused of graft. At the administrative level there does seem to exist corruption of a substantial order especially in the public works department and the government agencies dealing with the dispensation of incentives, facilities and other benefits for industrial entrepreneurs. Favouritism and nepotism are alleged in respect of appointments in public services and the

common saying is that if one wants to get a government job or employment in a commercial establishment, it is no longer enough if one is a bumiputra; one should also be a bumiputra with proper connections.

In the latter half of December during my sojourn in Malaysia, newspapers in Kuala Lumpur were reporting a rather interesting case of corruption on the part of a government official. The man involved was one Mr Kripal Singh, a chief engineer, who was accused of wilfully failing to declare assets amounting to M\$ 77,640 held in the name of his wife and their seven children. There is an anti-corruption agency called the National Bureau of Investigations but the general belief is that it does no more than toy with the tip of the iceberg. If the ostentatious living of the men in power or privileged positions in Malaysian society or business community is any indication, there are certainly quite a few Malaysians whose material conditions seem to have improved very much more rapidly than that of the general run of bumiputras. Even on a Sunday Kuala Lumpur's main thoroughfares are crowded with luxury automobiles although during week-days the office-going middle-class has to make do with a conspicuously inadequate public transport. In this respect as in many others Malaysia's capital and India's seem to be sisters under the skin.

### puritan approach

Since the Malays are Muslims and they form only slightly less than half the total population, the country and even the government do have a certain Islamic character. This means a considerable element of puritanism in the mores of private conduct or public behaviour, often buttressed or reinforced by the laws of the land. This situation has contributed in a measure to making the public particularly the reform-minded sections of the younger generation, sensitive to the issue of purity, integrity and austerity in public life. There is in fact a demand that the leadership of the ruling party should demonstrably return to accepted Islamic values. At the same time the puritan approach has also made for a certain spirit of intolerance which could and does embarrass or even cause serious harm to non-Muslim communities. For instance, it is a legal offence for a non-Malay male to cohabit with a Malay woman outside marriage and the man is therefore required to convert himself to the Muslim faith and marry his Malay mistress. There is one notorious case of an Indian prominent in Malaysian politics whose wife com-

mitted suicide at the second attempt because her husband chose to accept the legal consequences of having treated himself to a liaison with a Malay. Whether the religious overtones of Malaysian politics or law have anything to do with the fairly significant element of authoritarianism in Malaysian politics is a question which perhaps merits scrutiny. In any case it is quite true that authoritarianism exists, although under an umbrella of professed good intentions. For example, discussion of racial relations is taboo for political parties in the election campaign. The press, whether government-owned or other, is regularly under close supervision and news or views are sacred only to the extent that they are sanctified by approval, whether avowed or implicit, of the powers-that-be.

### stresses and strains

It is of course true that stresses and strains are natural to any society which is in a state of flux and Malaysia is nothing if it is not dynamic in economic, social and political terms. Nevertheless, tensions have a way of breaking out into the open in unexpected forms or places and on unexpected occasions. At the beginning of October last the Johore state government had a taste of this experience. It ordered the evacuation of about 130 landless urban Malay families which had squatted on about 100 acres of public land at the place about three miles from the state capital of Johore Bahru. It obviously did not realize what it was letting itself in for. The demolition of the shacks and the use of riot police to push out the squatters signalled a protest agitation by the students of the university of Malaya, in the course of which some student leaders were arrested. This was in a way the curtain-raiser to a more serious outburst of student unrest in December which very nearly brought on a head-on collision between the government in Kuala Lumpur and student activists in many parts of the country.

On December 3, a police force in the capital city was confronted by a militant gathering of about 2,000 students on the grounds of the Selangor Club. There were allegations of the police having been attacked. In any case the latter used tear-gas to disperse the crowd and by the end of the day more than a thousand students were taken into custody. On December 4, matters took a graver turn and the police opened fire on student crowds on the campuses of the National university and the University of Malaya to prevent students from marching on parliament. For the next fifteen days or so student communities in Kuala

Lumpur, Ipoh and Penang were boycotting classes, taking to the streets and otherwise staging anti-government demonstrations. The authorities however were able to bring the situation gradually under control through the judicious exercise of a mixture of means including force, guile and blandishment. The fact that a number of examinations became due in the third week of December greatly helped since by that time the student community was split along a number of lines.

### internal differences

The agitation had been spearheaded by the Malaysian youth council which soon found itself torn by internal differences. Again, the leadership of the council seemed to have some reservations about the Chinese student leaders whom, it suspected, of being half-hearted. Simultaneously ministers and the government propaganda machinery began to charge the student-leaders of the Chinese language society with having been indoctrinated by communist influences. Foreign students on the campus, especially those from Australia, New Zealand and Britain, were also accused of spreading radical notions. Anyhow by the end of the third week of December peace of sorts seemed to have returned to the campuses.

Although the confrontation between the government and the students on this occasion was happily short-lived, this particular agitation had deep and perhaps far-reaching economic and political significance. The precipitating factor was the resentment felt by the student community over the economic crisis in which the countryside and particularly the small-holders were finding themselves. Given crashing rubber prices and rising rice prices these vulnerable sections of Malaysian society were clearly in deep trouble. Although the authorities dismissed reports of starvation deaths as "impossible", it was true enough that the government's relief measures were tardy, inadequate and altogether unimaginative. Moreover, the fact that thousands of villagers could be overtaken by such a serious spell of deprivation after at least two successive years of economic expansion and export prosperity was widely interpreted as suggesting that something had gone wrong with the way in which the ruling party thought fit to guide the economic course of the country. The recent general election which had vested the coalition in power with an oppressive monopoly of authority over the destinies of the nation was regarded as an indication that the forces of dissent or protest would necessarily have to appeal to the people over the head of the government. For us in

this country the analogy with Indian politics is too obvious to be missed.

Let me not however be misunderstood. When all is said and done the fact remains that Malaysia has the most settled and about the least authoritarian political system among its neighbours in southeast Asia. At the same time, neither this political stability nor this relative liberalism can be taken for granted under all circumstances. The federation's vision of building an integrated multi-racial community is still in the process of being realized. Its avowed goal of ridding itself of mass poverty, which is a legacy of colonial rule, is still some distance away, even in terms of substantially improving the lot of the sons of the soil. Finally, in its attempt to reconcile the demands of parliamentary democracy to the requirements of rapid economic development, Malaysia's ruling coalition has not always been able to resist the temptation of the easier option of the politics of contrived consensus. In this sense, then, Malaysia remains a country, which is still happening, rather than a country which has already happened.

### economic development

In another and far more reassuring sense too Malaysia is a country which is busily happening; this is in the field of economic development. Almost from its inception thirteen years ago the federation of Malaysia has been pursuing the business of economic development through all the means at its disposal. In a way this was far seeing Tunku Abdul Rahman's response to the communist subversion and insurrection which was a potent menace in the early years of the state. Side by side with the use of military force against armed communist bands, the Malaysian government has tried to woo and win over a poverty-stricken people by holding out to them prospects of material progress through the constructive exploitation and development of the country's human and material resources.

The current five-year plan, which covers the period 1971-75, is the second in the series. It aims at an annual average growth rate of 6.8 per cent in Gross Domestic Product [GDP] at constant prices to which agriculture is to contribute at the rate of 8.3 per cent. In terms of current prices Malaysia's GDP is expected to grow at 6.5 per cent to which manufacturing is expected to contribute 12.5 per cent, commerce 5.3 per cent and construction 9.4 per cent. Exports are to grow at 5.2 per cent per year at current prices and it is estimated that employment will expand through the

plan period at 3.2 per cent per annum. Public development expenditure under the plan was originally prescribed at M\$ 7.25 billion and the figure was revised subsequently to M\$ 9.35 billion in the light of the progress actually registered by the economy in the earlier years of the plan. The year 1973 was a particularly good year because of the exceptional performance of the export sector which helped to accelerate the rate of real growth of the economy to eight per cent in that year as compared to 5.5 per cent in 1972.

The production of rubber reached 1.5 million tonnes, which was 14 per cent more than the output in 1972. Palm oil output went up by 18 per cent in 1973 over 1972 and the felling of saw logs by 13 per cent in peninsular Malaysia and 17 per cent in Sabah and Sarawak, while the growth in sawn timber output increased overall by 11 per cent. In the mineral and mining sector, production of tin and iron ore persisted in its downward trend but the petroleum economy continued to grow, with crude oil production rising by 4.5 per cent in 1973 to 95,000 barrels per day. In agriculture, the main food crop, rice, was up by eight per cent in 1973 with the result that domestic output could take care of 90 per cent of the country's requirements. In industry, output went up by 25 per cent in 1973, thereby accounting for nearly 17 per cent of the GDP as compared with just over 15 per cent in 1972. The leading contributors to this upward trend in manufacturing were vehicle assembly, wood processing, palm oil and kernel refining and rubber processing. The construction industry supported a high level of activity with output rising by 26 per cent.

### export sector

A spectacular performer was the export sector, where there was a 40 per cent increase in 1973 after a decline by an average rate of 2½ per cent in 1971 and 1972. This improvement was due to increases in the volume, as well as higher prices. For instance, exports of rubber, which accounted for 30 per cent of the total export earnings, increased by 16 per cent in volume and 51 per cent in price. Timber, displacing tin as the second largest source of foreign exchange in 1973, showed increases in exports to the extent of 40 per cent by volume and 115 per cent by value. The exports sector was also strengthened considerably by the steady emergence of Malaysia as the principal source of palm oil for world markets. Palm oil exports went up by 17 per cent in volume and 28 per cent in value in 1973 over 1972, accounting for nearly two-thirds of the world trade in this commodity and ranking fifth among

Malaysia's foreign exchange earners. Finally, the value of manufactured exports was higher by 46 per cent, with wood products, textiles, clothing, footwear, machinery and transport equipment and electronics ranking among the larger contributors. Consequently, although imports had also gone up by 20 per cent in 1973 on account of food and beverages including sugar and rice, chemicals including fertilizers, and machinery required for the rising level of industrialization, Malaysia could boast of an improvement in foreign exchange reserves which, at the end of 1973, were equivalent to nearly seven months' imports.

### over-optimistic estimate

Against this background of dynamism and development in the national economy, Malaysia was naturally disposed to look forward confidently to 1974 in spite of the turmoil into which the economies of many countries had been thrown by the oil crisis, which had suddenly surfaced in the closing months of 1973. As a matter of fact, oil could not be much of a worry to Malaysia since its crude oil production is in excess of domestic consumption. It is true that Malaysia does import crude from the Persian Gulf countries but these imports are of lower grades, while its own crude, thanks to its low sulphur content, is largely exported at premium prices. Making his budget statement in December 1973, the Finance minister hopefully forecast a rate of growth of about seven per cent in real terms in 1973. He expected the export boom to be maintained well into 1974 with a further increase in volume, and while he allowed that the prices of commodities of significance in Malaysia's export trade might ease from the very high levels registered in the second half of 1973, this retreat in prices would not be significant and that, at the worst, Malaysia's export earnings might dip by 3.5 per cent only in value.

It was however on the issue of inflation that the Finance minister was most optimistic. Consumer prices had risen by 10 per cent in 1973 as against 3.2 per cent in 1972. Given the long period of relative price stability spread over two decades which Malaysia had earlier enjoyed, these inflationary pressures were treated as an aberration arising out of 'imported' inflation. It was pointed out then that import prices had risen by 12 per cent in 1972 and by a further 14 per cent in 1973. From this it was argued that, since there was likely to be some general decline in prices in international trade in 1974, the element of imported inflation in Malaysia's eco-

nomy might correspondingly diminish. Most of these assumptions and estimates, however, have turned out to be over-optimistic.

In the first place, the plantation sector was thrown out of gear by the slump in the prices of raw rubber which occurred in the course of 1974 and since Malaysia is not only the world's largest producer of natural rubber but is also dependent on export earnings from this commodity for the economic viability and financial solvency of much of its countryside, it received some of the worst impact of the crisis in the world's natural rubber market. After twelve years of stagnation, the price of rubber finally freed itself and soared upward to reach a peak of 277 cents 'Malaysian' for R.S.S.I. (high grade rubber) in June 1973. It subsequently moved down to an average level of about 200 cents before again flaring up—this time in the wake of the Arab-Israeli war and the coup in Thailand—to an average price of nearly 203 cents in October, 1973. An all-time peak was reached on December 28, when the price of S.S.R.I. moved to 263 cents per kg. The price of rubber continued to rise in January and February, 1974, thereby seeming to justify the Finance minister's assessment that the price of natural rubber was bound to hold up since the increase in oil prices would encourage a switch from synthetic rubber. However, this proved to be wishful thinking in the course of 1974, with natural rubber prices coming down to as low a figure as 97 cents by November.

### regional approach

This has necessarily made the government to bestir itself to do something to safeguard the economic interests of the country in a vital area of its highly important export sector. In the course of December 1974 the Malaysian government was busy canvassing the support of Indonesia and Thailand for a plan of regional cooperation in stabilizing the price of natural rubber in world markets. The Malaysian scheme envisages the cutting down of production by about 10 per cent and the creation of a buffer stock with an initial outlay of M\$ 500 million (US \$220 million) to be contributed by the three rubber-growing countries in the region, viz, Malaysia, Indonesia and Thailand. Initial reactions from Indonesia and Thailand have been favourable although the Indonesian view on a production cut was that the concept needed to be carefully examined. More immediately the Malaysian government has moved to provide some relief to its rubber-growers.

The Rubber Research Institute started

buying rubber from small-holders in Perak from the beginning of December. It claimed that the response was tre- mendous and it is true enough that the government has succeeded in improving appreciably the prices received by small holders for their rubber. Nevertheless so long as there is a world recession and a slump in international demand for natural rubber, both the Malaysian economy generally and the economic circumstances of the small-holders, depending for their livelihood on the sale of and earnings from latex, are bound to be under strain. Moreover, so far as small-holders are concerned, the chronic disadvantage they suffer in dealing with middlemen needs to be dealt with through the re-structuring of marketing arrangements on lines more-radical than the government seems prepared for at the moment.

### slump in timber

To the GDP estimated at M\$ 9.58 billions for the year 1974, rubber is expected to have contributed about 30 per cent. The next big source is timber of which Malaysia is a leading exporter although neighbouring Indonesia is the biggest Asean source for hard wood for world markets. Timber is estimated to have contributed 13 per cent to the Malaysian GDP in 1974. There was a sharp slump in saw logs and sawn timber in international trade last year. Japan, a major buyer, severely cut down its offtake. South Korea and Taiwan, which import timber for processing into plywood for export to the United States, have also become indifferent buyers since the US demand for plywood has contracted. The decline in construction activity in many countries of the world, notably the United States, Japan and Britain, has had a direct adverse impact on the timber economies of those Asean countries which derive substantial foreign exchange earning from the export of saw logs or sawn timber. As a result, a large number of saw mills have gone out of business in Malaysia and this has particularly hit hard Chinese businessmen and traders who are prominent in this industry. But for the fact that the world price of and the international demand for palm oil have been holding well Malaysia's primary economy and its countryside would have suffered even more than it has done from the recessionary trends in world economy.

In the manufacturing sector too there are pockets of depression and unemployment. Electronics, which has been a fleshy growth industry, has lately developed a bearish outlook partly because of a decline in domestic demand. More

severely hit is the textile industry. Cotton yarn and fibre producers were the first to experience the effects of a recession. This was in the early months of 1974. Subsequently garment manufacturers started reporting a setback in demand. As the year progressed, textile companies began curtailing production with many of them limiting themselves to a three-day week. Faced with a buyers' market both at home and abroad, Malaysian firms in this industry have found themselves in a weak position vis-a-vis foreign-owned companies, which are larger in size, better equipped and more efficiently market-oriented. The situation has been complicated by the influx of Japanese and Hong Kong textile manufacturers into the Malaysian textile industry during the last few years. For some time now the Malaysian government has been under pressure to curb imports and counter dumping of textiles into Malaysia by east Asian exporters and it has already had to make concessions to this demand.

### double-digit inflation

The picture then is that although the Malaysian economy has had an enviable record over a period of years of building up domestic prosperity as well as a strong export sector, it has not been in any way immune from the cold winds of world recession. There is unemployment and extensive under-employment in the primary sector and in the countryside, while localized depression has developed in some areas of the manufacturing sector. This in itself must cause a certain amount of economic distress and social stress. In addition, Malaysia has also moved into double digit inflation and for a country which has known relative price stability for quite a long period of years, this kind of pressure must be extremely difficult to accommodate or adjust to. Official estimates have conceded that inflation is running at an annual rate of about 18 per cent. The price level had peaked in March 1974 and since then it has been officially claimed that there has been some easing. Nevertheless, many non-official observers believe that the rate of inflation had accelerated in the closing quarter of 1974 when food prices were more than 24 per cent higher than what they were a year earlier. This is in spite of the fact that Malaysia produces 90 per cent of its own requirements of rice and that domestic rice prices compare favourably with world prices for the commodity.

The immediate outlook for the Malaysian economy would be largely determined by world price trends for raw rubber and timber. Unless there is some recovery in these areas, a good part of the country's rural sector will continue to be

in poor shape. This would make inflation even more of a social and economic problem than it need to be. It is however possible that the rate of inflation itself may be brought down through a better balance between money supply and aggregate demand. A good deal of the liquidity of the Malaysian economy has come from the high level of private investment activity. It is possible that this activity may slacken to some extent partly because of the world recession, and the view many business forecasters take of the capacity of Malaysia's domestic economy to raise its consumption standards in the near future.

### livestock breeding

On the more positive side there is the determination of the government to increase food production and there is talk of the country becoming self-sufficient in rice. Efforts are also afoot to raise the sights of the country's beef industry. As it is, local cattle is of poor quality and much of the livestock is uneconomic, whether for dairy purposes or for the production of meat. The central strategy of livestock development has been laid down as the upgrading of local cattle through the introduction of strains of foreign and exotic breeds by artificial insemination. A recent report by French livestock experts has recommended the Charolais breed for beef and the Holstein and Brown Swiss breeds for milk. It is estimated that the country would need about 58 million pounds of beef in 1985, a requirement which would call for an increase of 26 million pounds over the present output.

It is interesting to note that Malaysian agriculture is to a very considerable extent quality agriculture in the sense that the use of fertilizers, improved varieties of seed and intensive farming techniques are widespread even among smallholders. There is also a certain amount of mechanisation of agricultural operations involving the use not merely of the simpler types of modern agricultural implements but also heavy farm machinery and equipment. This speaks well of the attention which the country's economic development strategy has been paying to the technical side of modernizing agriculture. Where Malaysian agriculture is weak is in its structural and economic aspects. It has already been mentioned that the owners of small rubber holdings do not get a fair deal from middleman or the marketing system. This is a difficulty which Malaysia's primary producers as a class seem to share. Again, there are far too many uneconomic holdings while tenancy legislation, as in our country, has much to answer for in the

matter of honest or efficient implementation.

It should not be difficult to identify the growth sectors in Malaysia's immediate economic future. Petroleum and petroleum products are estimated to have contributed M\$ 940 million or roughly 10 per cent of the total to that country's GDP in 1974. It is believed that the contribution of this sector would rise to M\$ 1.5 billion in the next 12 months and to M\$ 2.5 billion in another two years. This should more than make up for any decline in foreign exchange earnings due to adverse international trends in markets for such primary commodities as rubber or timber. Even in the primary sector Malaysia's palm oil economy is strong and dynamic. It may be assumed that world demand for vegetable oils and fats is likely to remain at a fairly high level and that Malaysia will continue to reap the reward of its prudent and intelligent policy of diversifying its plantation economy by promoting the cultivation of palm oil vigorously as it has been doing in recent years.

### manufacturing sector

In the manufacturing sector the advance of petroleum exploration and exploitation may be expected to spawn a whole series of feeder, auxiliary and processing industries. It is inevitable that Malaysia would seek to refine more of its crude oil or utilize more and more of the refinery products for building up petrochemical industries. It would be equally natural for this country, as its petroleum industry develops, to seek to manufacture the tools and equipment which the complex of petroleum-based industries would need.

The manufacture of rubber products which has already made considerable headway, may also be expected to be promoted further. Here Malaysia's Rubber Research Institute may have an important role to play. It has already made a valuable contribution to the country's rubber economy by the work it has done to combat malpractices in the trading system based on the grading of ribbed, smoked sheet (RSS). It has developed the quality consistent standard Malaysian rubber (SMR) and thereby helped export earnings to improve through higher unit prices for quality-guaranteed higher grade rubber. The institute is continuously engaged in the investigation of local processing potential and the development of compound rubber blends. It would be reasonable to assume that the government would encourage the growth of more and more rubber product industries, possibly on a small-or-medium scale, predominantly under Malaysian, if not Malayan,

ownership and management. This approach may also be followed in regard to such industries as could be based on local primary products or raw materials. Indeed a significant part of the next stage in Malaysia's industrial evolution could be the emergence of agro-industries or industries utilizing forestry products.

## sound balance of payments

Although Malaysia's rich and productive plantation economy has enabled it to build a sound balance of payments position as well as develop a strong and stable currency, its economic policy-makers have from the beginning realized and emphasized the significant contribution which foreign private capital and investment could make to the industrialization and other socio-economic objectives of the development strategy. It has been clearly seen that a post-colonial economy needs industrial capital as well as entrepreneurial and technical skills for moving into the industrial culture and industrial age of the later twentieth century. Consequently the government's policy for encouraging foreign investments is bold and imaginative.

The core of this policy is the range of liberal fiscal incentives offered from 1956 onwards. This policy was embodied in a highly developed form in the Investment Incentives Act of 1968. Under this Act, firms eligible for "pioneer industries" status are entitled to tax relief from company and development tax for periods between two and five years according to the size of the investment. An additional year of tax relief is granted for the fulfilment of each of the following conditions: if the company operates in a development area; if it produces a priority product, i.e. for export or contributing to the development of the economy; and if the company employs a specified proportion of local labour. Companies, not qualifying for pioneer status, may deduct from their taxable income a sum of not less than 25 per cent of capital expenditure incurred on factory, plant and machinery. In addition, a deduction of five per cent is allowed in their case for the fulfilment of each of the special conditions mentioned in respect of pioneer industries. There are also fiscal concessions for exports and for labour-intensive industries. Exemption from import duties is granted for machinery and in some cases for raw materials considered essential to the manufacturing process. Where a company produces solely for export, 100 per cent foreign ownership is permitted. Otherwise, pioneer companies must offer at least 51 per cent of their equity capital for local

participation. All other companies must offer at least 50 per cent of their equity capital for local participation but, in their case, at the minimum level no incentives are given.

Under the second plan the Malaysian government expects the private sector to invest some US \$ 2,400 million and, given the interest shown by investors and entrepreneurs from countries such as the United States, West Germany, Japan and the UK in the earlier years, it is confident of foreign investments contributing their share to the fulfilment of this goal. Already foreign capital and management, jointly with local partners, is well-established in the petroleum, tyre and other rubber processing, machinery, light engineering, chemical, electronics and textile industries. Although quite a few of these joint ventures, particularly those sponsored by big firms or corporations in the United States or Japan, have been "screw driver" installations in the sense that they are mere assembly plants, the trend has been towards the progressive introduction of manufacturing activities. Incidentally, in contrast to Thailand and Indonesia, Malaysian industrialization has tended to be broadbased and has included not only the production of consumer goods but also a wide range of intermediate manufactures.

## joint ventures

Indian firms have shown some interest in setting up joint ventures in Malaysia. As a matter of fact, they are participating in more such enterprises in Malaysia than in any other country in the world. These collaborations cover a variety of industrial products including textiles, steel furniture, glass bottles, precision tools, confectionery, electric motors, pumps and diesel engines, steel foundry, *vanaspati* and soap, sugar and cosmetics and pharmaceuticals. The performance or fortunes of these joint ventures have been varying in quality, whether with regard to the efficient implementation of projects, commissioning of plant and machinery, establishing a presence in markets at home or abroad or earning a reasonable return on investments. These ventures have also had their ups and downs in accordance with the changing circumstances of the domestic economic environment or of the country's export sector in relation to trends in international trade. Almost all of them have had their teething troubles and while some of them have got over them reasonably fast, others have taken more time for their quest for viability. There have naturally been some bright performers on this scene but there are also grey areas.

Broadly speaking, however, it cannot

be claimed that these joint ventures as a whole have fulfilled the expectations entertained of them either in India or Malaysia. I spent some of my time in Malaysia trying to figure out why this was so. One of the points made in those banking or financial circles, taking a friendly interest in these ventures, was that there had been poor financial planning and that the Indian collaborators had frequently tended to underestimate both capital costs and requirements of working funds. I was also told that not enough interest or care was always shown in the choice of local partners and that very often weak or indifferent parties were recruited. It was pointed out too that in a number of cases not enough home-work was done and that some firms were found manufacturing and trying to market products for which a demand could not be easily cultivated in the country. At the same time it was admitted that, although some of the managements of these joint ventures had not been of the highest quality, many of them had tried hard, and often successfully, to make up for deficiencies in planning and learn their lessons on the job.

To my very considerable satisfaction I found some of the Indian managements I spoke to quite responsive to these criticisms or complaints. Their case however seems to be that, from the start to the finish, they have had to suffer under serious limitations not all of which have been of their making. For instance, the Indian government's policy has been to limit Indian equity participation to the value of the plant and machinery initially exported from India for the project. This has naturally cribbed the scope the sponsors of these ventures have for sound and flexible financial planning. Again, the Reserve Bank has been so strict and grudging in its allocation of foreign exchange for Indian entrepreneurs visiting Malaysia for the purpose of prospecting, discussions or finalization of projects that it has often been not possible to identify or attract sound and viable local parties.

## lack of selectivity

An even more serious difficulty has been created by the lack of selectivity on the part of the concerned ministries of the Indian government when sponsoring or otherwise recommending projects or prospective Indian entrepreneurs. I was told that so many Indian businessmen visiting Kuala Lumpur and claiming to be interested in joint ventures were so obviously incapable of delivering the goods that neither the Malaysian government nor prospective Malaysian collaborators could take them seriously. It was emphasized that this situation had to be compared with other situations in which Japanese and US or other western business teams



were able to descend on Kuala Lumpur with whole teams of financial, managerial and technical experts and keep talking until proposals were properly vetted or contracts signed, sealed and delivered.

I also came across the anxious enquiry whether the government of India really attached sufficient importance to the joint venture approach. It was told to me that some senior government officials visiting Kuala Lumpur had given the impression that the government of India really did not set much store by joint ventures since in its view, they have not so far been bringing much benefit to the Indian economy in the form of foreign exchange remittances. There is no reason to suppose that there is misinterpretation or misrepresentation here of the views expressed on behalf of our government, in which case it is high time New Delhi had done some re-thinking. In recent months the concept of joint ventures in oil-exporting countries has become highly fashionable and at least against this new background, the government of India should make up its mind whether it is going to be a party to an aggressive promotion of joint ventures abroad including countries other than those of the Persian Gulf. Once the basic decision is taken and this decision is in favour of the joint venture approach going from strength to strength, it should not be difficult to work out a package of government policies or measures which could create as favourable a climate for existing joint ventures or for the start of new ones.

### three desiderata

Three desiderata may at once be stated. The first is that the government of India should take a policy decision in favour of permitting some flexibility to the Indian entrepreneur in initially determining or subsequently expanding his equity base in the joint venture. Secondly, the government should also be prepared to provide facilities to the Indian entrepreneur for raising working funds for the joint venture. This could mean the Indian partner being allowed to offer his assets in India as security for the loans he may raise abroad for the joint venture. Finally, the Reserve Bank should reconcile itself to sanctioning adequate foreign exchange for Indian parties to be able to spend sufficient time abroad scouting for sound local partners or send teams adequate in personnel to discuss projects in depth with foreign governments or parties and finalize deals on the spot.

Although Malaysia is likely to continue to welcome foreign capital and investment for some time to come, it cannot be

taken for granted that it will continue to follow an open-door policy indefinitely. On the contrary, some pressure is already building up within that country against indiscriminate encouragement of foreign investments. For instance, during the recent student agitation, cries were raised in opposition to what was alleged to be excessive repatriation of profits by foreign enterprises operating in Malaysia. Again, the depression in the textile industry has served to turn the spotlight on the disadvantage suffered by the smaller Malaysian firms *vis-a-vis* the more resourceful foreign undertakings operating in the country. It would therefore be reasonable to expect that, sooner or later, the Malaysian government may find it desirable or necessary to resort to a higher degree of regulation of foreign investments in accordance with the priorities of the Malaysian economy or its development goals.

### foreign capital

It seems to me that, in the future, joint ventures, especially with parties from countries such as India, would be favoured or encouraged in areas where medium scale industries are based on local raw materials especially originating in agriculture or forestry. Malaysia may also be interested in seeking the participation of foreign capital and technology for industries manufacturing intermediate products, which could be exported for further processing by manufacturers in other countries who have the facilities for serving world markets with the finished products. Here Japan is probably in an advantageous position for benefiting from such opportunities.

Another promising growth area for foreign investments in Malaysia would be petroleum-based industries. Here again Japan is likely to take the lead, but the United States and Germany may also show substantial interest. Recently a delegation went from Malaysia to the Persian Gulf countries to explore possibilities of industrial and trade cooperation. It has been reported that, while those countries did not show much interest in participating in joint industrial ventures in Malaysia, since they considered that the Malaysian market was not large enough for major investments, they were more forthcoming about the cultivation of trade ties.

Given the relatively high growth rate of the Malaysian economy in its primary as well as industrial sectors, this country is bound to increase in importance in international trade. Already Malaysia is placed in the intermediate category of developing countries. Once the exploitation of its oil potential gets into full swing,

this country is bound to gain further in relative ranking. Meanwhile it is already in an enviable position with regard to its infrastructure facilities. Transport and communications are good. Power and water development are making satisfactory progress and the banking structure is expanding and diversifying. In fact one of the more encouraging recent developments in the Malaysian economy is the progress made in the banking sector, which has geared itself to meet not only the more sophisticated needs of the growing industrial sector but also the basic and complex needs of rural credit and small scale industry financing.

Incidentally, Indian banks in Malaysia which had played a historic role in the development of the plantation economy of that country, have assumed new incarnation for continuing the good work. Because of the Malaysian legal prohibition on the functioning of foreign state-owned banks on Malaysian soil, branches of Indian nationalized banks in Malaysia have incorporated themselves into a joint venture in banking under the nomenclature of United Asian Bank Berhad. This is now truly Malaysian institution wedded to Malaysian needs and it has been able to progress along with other major Malaysian credit institutions. While it is no doubt true that Singapore and Hong Kong occupy special positions in southeast or east Asian economy as international financial centres, it must be said to the credit of the Malaysian banking system that it is fast coming up to scratch in serving the complex requirements of Malaysia's multi-dimensional economy.

### significant asset

In the progress of a country natural resources are no doubt important. Sound government policies, again, are clearly a significant asset. Basically, however, what matters is the right orientation of people's attitudes. Malaysia's people, irrespective of differences in racial origin or background, are hard-working and performance-inclined. A good example is the Malaysian Airlines System. It is possible that Thai International has more elegance or that Singapore Airlines more elan, but for the sheer comfort and reassurance of its extremely natural efficiency, Malaysia's airlines is hard to beat. No wonder it is a profit-making business — as Singapore Airlines and Thai International also are — among the few airlines in the rest of the world now paying their way. Malaysia knows what it is about and writes it across the skies for all the world to see.

(Concluded)

# The latest from the USSR

London

## I Trends in 1973-74

THE SOVIET economy managed to get over the 1972 growth crisis in a remarkably short time. The targets for 1973, drawn up rather cautiously, were exceeded in all important sectors; the expansion rate of the economy as a whole, measured by the increase in net material product, nearly doubled on the previous year, increasing from four to seven per cent.

The favourable trend in 1973 was to some extent determined by the record performance of agriculture, helped by good weather: the grain harvest jumped from 168 million tons to 223 million tons, thanks to a considerable increase in yields (1972: 14.0 dz. per hectare; 1973: 17.6 dz per hectare, 1 dz=100 kilograms). Other crops, like potatoes (+38 per cent) and vegetables (+23 per cent), also produced higher yields than ever before. But output in stock farming increased only modestly since feedstuffs were scarce before the new harvest.

Productivity in other sectors also rose faster than in 1972, largely thanks to a broadly successful investment policy.

Investment was concentrated more than previously on the completion of plant already started, so that the increase in new capacity (from replacement and new investment) was twice (+8 per cent) that of gross investment in fixed assets; in earlier years it was usually the other way round. As laid down in the plan, the so-called consumption fund (private and public consumption) expanded faster (+8 per cent) than the overall "accumulation" throughout the economy (net investment in fixed assets, investment in stocks, government reserves), which increased by about six per cent.

Foreign trade turnover (export plus imports) rose twice as fast as in 1972, though higher prices were partly responsible. Prices of exports, to the west in particular, have risen considerably. In nominal terms the USSR enjoyed an export surplus, against a deficit in 1972. But after eliminating price increases over 1972, the deficit persisted in 1973.

The 1974 economic plan was intended to bring the USSR back into the growth path originally envisaged for the five-year planning period 1971-75. On the basis of the sparse figures available for the first half at the time of writing, it looks as though this target may have been reached.

Gross output and productivity in manufacturing increased faster than planned. The food industry achieved the fastest growth in output (+10 per cent) of recent years (plan 1974: +7.6 per cent), so that output of consumer goods probably rose faster than that of producer goods, as planned. Farmers expected a good grain harvest, somewhere between the plan target of 206.5 million tons and the 1973 record.

On the expenditure side, once again more new investment financed from the government fund was started (+9 per cent) than finished (+4 per cent). In the first half of 1973 this ratio was 6 to 13 per cent. The retail trade target was not reached. As at the same time private incomes expanded strongly, private savings increased by a third.

In the eighteen months up to September last, the economy progressed in a way that even by world standards is remarkable. However, economic growth in the past three years has fallen behind the five-year plan target. Even at this stage it seems certain that this backlog cannot be caught up with by the end of 1975. But economic progress in the USSR should not be measured just by this yardstick. Soviet planners are no more able than any others to foresee economic progress five years in advance. Rather, the five-year plan is a guiding framework for structural policy that forms the basis for short-term planning and which in turn is affected by such planning. Medium-term economic planning must react to unexpected short-term developments, particularly if the economic costs (foregoing growth alternatives) of keeping to the original structural target become too high. Soviet economic policy reacted to 1971-72 production problems by cutting back on the overall economic growth rate planned for 1971-75: in addition, the plan targets for foreign trade, originally fixed cautiously, were raised by a large margin.

## II Insufficient "Technical Progress"

"Technical progress", i.e., the third factor of production other than capital and labour, was to exert a decisive influence on growth in 1971-75, but in fact this most important target has not been reached; the rise in productivity lagged behind the five-year plan. This was mainly because:

I. Investment planning continues to

suffer from the defects criticised for years (too many projects tackled at once, lack of coordination with capacities in the building industry, failure to keep to dead lines and costings). More attention is given to expanding production plant than to modernising existing assets (replacement of obsolete plant).

II. Government employment policy has not succeeded in steering the use of labour rationally, although the continuing shortage of labour was making this increasingly urgent. Many plants continue to hoard excessive reserves of labour and to find labour for new plants and new industrial areas difficult. Nor has the plan to achieve a higher capacity utilisation by increasing the number of shifts been put into practice.

## product quality

III. The speed at which new products and/or new production methods are introduced remains unsatisfactory. This trend is inherent in any non-market economy and reflects the generally inadequate efficiency of a planned economy. At the moment the USSR government committee for the supply of materials administers centrally more than 12,000 products! Most plants not only have their input determined centrally but sales of their output as well. Thus producers have no incentive to look for ways and means to improve product quality and to introduce technical innovations.

IV. Productivity increases are also limited by bottlenecks in the economic structure resulting from the one-sided emphasis on heavy industry in the past.

The Soviet leaders try to step up productivity by falling back on appeals to the Soviet population's will to work. A resolution by the Communist Party's central committee, the Council of Ministers, the unions and the Komosol launched the "socialist competition for the early fulfilment of the 1974 plan" and introduced the order of "activist of the 9th five-year planning period". There are constant appeals to the worker's sense of responsibility, socialist enterprise, efficiency, initiative and discipline. For example, as Mr Brezhnev has said: "All this concerns the moral, the spiritual sphere of social life and cannot be captured in a plan or in the statistics". This propaganda campaign reminds one of Harold Wilson's desperate appeals to British workers to observe the so-called Social Contract, but the big diffe-



rence is that Soviet workers have not the liberty to strike.

### III

#### Rising Living Standards

An increase in the population's standard of living is the second major task for the current five-year plan. The phased rise in the minimum wage to 70 roubles a month, gradually introduced—region-by-region,—was to have been completed throughout the USSR in 1974. The repayment of the compulsory government loan for workers and salaried employees, dating from 1947 to 1956, was also due to start at the end of 1974. Services to the population are again expected to rise faster (+6 per cent).

Private living standards have risen remarkably since 1970. At the same time clear signs of disequilibrium between supply and demand have emerged: saturation and overproduction in some markets, frequent or permanent bottlenecks and supply deficiencies in others. This shows up in the reports on growing stocks of unsaleable goods (textiles, shoes), in the stagnation or fall in turnover of certain products (washing machines, cameras) and queues which are still part of daily life (potatoes, vegetables, fruit) and the existence of long waiting lists (cars). The large increases in savings too, which as a rule grow much faster than retail trade turnover, largely arise because people do not find enough, or what they want, to buy with their surplus cash.

With constantly rising incomes, an increasing supply of goods and services and slowly rising free consumer choice, it is becoming increasingly urgent for the Soviet planners to match the supply of consumer goods to consumer demand. This causes headaches to officials whose planning experience has been gained in planning production by obedient industrialists and large-scale agriculturalists and who have hitherto been able to ignore or despise the interests, needs and the whims (why not?) of mere consumers.

### IV

#### Trends in Foreign Trade

The USSR's foreign trade turnover (exports plus imports) in 1973 rose to 31,300 million transfer roubles. Its growth rate (+24 per cent) was by far the highest of the past 14 years. In contrast to 1972, the increase was mainly due to the expansion of exports so that the USSR notched up an export surplus of about TRb 300 million compared with a deficit of TRb 1,600 million in 1971. This trend continued in 1974. According to the available statistics from the partner countries in east and west—which in 1972 covered more than half of Soviet trade—Soviet exports

in the first half of the year seem to have increased by 40 per cent while imports went up by only eight per cent. On this showing the trade surplus in 1974 might rise to TRb 1,400,000,000, on an expected turnover of TRb 1,380,000,000.

Some notable changes have taken place in the country distribution of Soviet foreign trade. With the OECD countries it increased well above average, particularly with the USA—because of the large rise in grain imports and with West Germany. However, in 1974 the USA were expected to lose their dominant position among the USSR's western trading partners, because US deliveries to the USSR were falling (first quarters: —48 per cent). By contrast, West German exports to the USSR in the first half increased by 44 per cent, imports, from the USSR by as much as 100 per cent.

Soviet grain imports in 1973, at 23.9 million tons worth TRb 1,110,000,000, reached record level (imports in 1966-70 averaged 2.8 million tons; 1971: 3.3 million tons; 1972: 15.5 million tons). Main suppliers were the USA (15.4 million tons), Canada (4.2), France (1.4) and Australia (0.8). The USSR again exported grain in 1973 to fulfil its obligations to Czechoslovakia (in mil. tonnes) (1.1), the GDR (1.0), Poland (1.0) and Cuba (0.5).

#### drop in food imports

Thanks to the good harvests of 1973 and 1974, the USSR was able to cancel a large part of its order to the USA, so that grain imports in 1974 were expected to drop drastically and the trade with the west benefit accordingly.

Soviet foreign trade statistics show that the volume of both exports and imports in 1973 rose by 14 per cent. This means that export prices have risen by nine per cent and import prices by two per cent. Price increases in the USSR's Comecon trade were small (exports: +2 per cent; imports: +1 per cent), since the bulk of intra-block trade is done at contract prices usually constant for five years. By contrast, prices of exports to the west jumped 21 per cent, while prices of imports from the west were up only three per cent. As a result, the terms of trade with the west improved by 17 per cent: the USSR was thus able to reduce its trade deficit with the western industrial countries by nearly TRb 1,150 million although the volume of imports from the west (+29 per cent) increased faster than that of exports to the west (+25 per cent). Prices of the principal Soviet goods exported to the west—in 1973 fuels, ores and metals made up more than a third of total exports—continued to rise in 1974 so that the balance of trade and payments with OECD countries will once again improve.

Oil prices are a good example of the

variations in price changes between individual segments of the market: export prices (average values) for deliveries of oil and oil products to western industrial countries were raised by 47 per cent; the nine EEC countries on average had to pay as much as 130 per cent more. The variations in the increases depend on the time of delivery (before or after October, 1973). In trade with the Comecon countries the price of Soviet oil has gone up by only four per cent, as laid down in the price agreements for 1971-75. However, the other Comecon countries are likely to have to pay higher prices for Soviet oil in the 1976-80 plan, if not before.

#### rise in foreign trade

The USSR's involvement in foreign trade increased further in 1973, the export ratio (exports as a percentage of GNP) rose to an estimated seven per cent (1972: 6 per cent). On top of this, in recent times as much as 15 per cent of Soviet manufacturing's spending on machinery and equipment was on imports. These figures point to the increasing importance of foreign trade in the USSR's economic growth. It is increasingly being advocated in the USSR that foreign trade should not be considered primarily as a means for meeting international obligations. It is argued that foreign trade relations have been more than a secondary factor in economic growth for some time now.

Demands are being made for an all-out effort towards more export-oriented industrialisation. This would require the development of a competitive export industry and a reform of the foreign trade system, and also means that the USSR would become more dependent on imports. The progress of the next five-year plan 1976-80 will show whether, and to what extent, the Soviet government has decided to instruct its planners to learn the techniques of competitive supply and demand in internationally traded goods. They might do worse than have copy of the latest edition of Bonham and Paish's *Introduction To Economics*, published by Isaac Pitman, London, translated into Russian for them. They will find the six chapters on the theory and practice of international trade difficult for planners to grasp at first, but wholly enthralling once they get the hang of it, and many of the earlier chapters will show them how better to meet consumer demand on their domestic markets.

**Sources and acknowledgements:** The foregoing summarises a report in the latest *Economic Bulletin* published by the Deutsches Institut für Wirtschaftsforschung (5 Koenigsplatz, Berlin 33), but the DIW is not responsible for the emphasis of my summary, still less for my interspersed comments based on a variety of sources.

# Problems of industrial housing

**Survey of Industrial Housing:** The Employers' Federation of India, Bombay; Pp 73; Price Rs 7.

**General Potentialities of Sultanpur—A Study in District Planning:** Dr Kirpa Shankar; Arthik Anusandhan Kendra, Allahabad; Pp 80; Price Rs 12.50

**Development of Marginal Farmers and Agricultural Labourers:** S.M. Pandey; Shri Ram Centre for Industrial Relations and Human Resources, New Delhi; Pp 116; Price Rs 20.

**Political Administration of Indian Economy:** A.W. Nawab; Idarah-i Adabiyat-i Dilli, Delhi; Pp 351; Price Rs 50.

**New Dimensions of Monetary Management ;** R.J.Mody; the Macmillan Company of India Ltd; Pp 124; Price Rs 40.

**Life Insurance Finance in India:** O.P. Bajpai; Vishwavidyalaya Prakashan, Varanasi; Pp 316; Price Rs 40.

THE Employers' Federation of India has been bringing out very informative monographs on various aspects of the problem of industrial development in India. The monograph, *Survey of Industrial Housing*, which happens to be the eighteenth one, deals with the very pressing problem of industrial housing in the country.

Among the problems created by modern industrialisation, the problem of housing for industrial workers is of great social and economic significance. Indeed it may be said that the problem has been at the root of much of the discontent and social unrest that has accompanied industrial development in India, especially after the second World War.

The importance of housing as a factor for improving and maintaining the efficiency of workers by way of psychological satisfaction from their work cannot be overstressed.

## state assistance

It is gratifying that in general employers in India have shown both a keen awareness and initiative in tackling the problem of industrial housing almost since the beginning of industrialisation in the country. It may be noted that till about the end of the second World War, the industry tried to tackle the problem with its own resources. It is only after the war that its efforts received a boost on account of the state assistance under the various housing schemes. It may however be said that on the whole the efforts of the Indian employers in the sphere of industrial housing have been purely voluntary and their efforts

have continued to grow even after the national policy pronouncements, the judicial awards of the Supreme Court and the ILO recommendations on workers housing positively affirmed that employers are not responsible for the provision of housing for their workers. All the above pronouncements have recognised that the gigantic problem of industrial workers' housing is a crucial part of a wider problem of the general shortage of housing all over the country and that the effective solution of the problem can be found only by tackling the problem by the public authorities as an integral part of the overall programme of the economic development of the country.

## housing colonies

Despite this, the monograph shows that the employers in India have sought to improve housing facilities for their workers directly by constructing houses with their own funds or with the assistance of the state under the subsidised industrial housing scheme and indirectly by providing housing assistance, concessional loans and assistance in kind to enable employees to build their own houses. Generally employers in metropolitan areas have sought to provide housing to a large proportion of their employees by constructing tenements or assisting other local agencies to build houses for them. It is a well-known fact that some large concerns such as TELCO and Kirloskars have set up even huge housing colonies or townships well equipped with modern facilities. Unfortunately in recent years the scarcity of suitable lands and their high prices in urban

centres have severely restricted the ability of industries especially in urban areas to construct tenements for their workers on a requisite scale. The consequence has been that at present in most cases the efforts of employers at most of the urban centres are getting confined mainly to provision of financial assistance to employees in the form of rent allowance or housing allowance or subsidy wherever possible.

## unremunerative investment

It is found that several managements have taken assistance under the government housing schemes to build tenements for workers; but the usefulness of such government assistance programmes has been on the whole extremely limited as such assistance is not adequate to meet the cost of land and other construction and also because of the scarcity of land and other construction materials, high incidence of fiscal levies, regulation of tenancies under the rent control acts and the difficulties experienced by employers in providing the necessary guarantees. It is not surprising that due to the above and other reasons, the employers find investment in housing, which yields by way of return only about two per cent, highly unremunerative. And yet it must be admitted that employers have played a notable role in providing housing facilities to their workers as a welfare measure. It is misleading to judge the employers' contribution in this field only in terms of the proportion of employees benefitting from company housing because all the employees are not houseless and as a very large proportion of them resides in their own or generally rented houses built by private landlords or public authorities.

It should be recognised that in the final analysis the progress of industrial housing is inextricably linked with the growth and expansion of industries, supply of construction materials, extent of resources allocated by public authorities and above all the general improvement in the earnings of the working class. It may therefore be rightly said that the progress of industrial housing is a part of the general problem of economic development of the country. This implies that the problem of industrial housing

cannot be successfully tackled in isolation.

The problem of industrial housing and in fact of housing in general has become critical not only in urban but also in most of the mofusil areas in the country. And, as in several other spheres, here also the government's approach from the beginning has been characterised by lack of awareness of the dimensions of the problem, belated and half-hearted efforts to tackle the problem when forced by circumstances and shifting the responsibility on to some one else in the face of threatened crisis.

This monograph based partly on published material and partly on *ad hoc* survey will be found extremely useful in at least providing an outline of the subject of industrial housing as it stands at present.

### District Planning

Our attempts at planned economic development through five-year plans since 1951 have brought certain deficiencies in our strategies of planning and in the planning process to the fore. It has now been realised that economic growth does not diffuse automatically to all the regions which means that the strategy of economic planning will have to tackle the problems of backward regions and districts on a special footing. If micro level planning is not done at the local level, it is now realised that not only such regions and districts will fail to catch up with the rest of the country but ultimately may prove a drag on the economic progress of the country. It is realised that unless planning is done from below, the whole planning process may be vitiated and planning exercise may get reduced to a ritual of target fixing by a bureaucracy divorced from the people. The new strategy on which there seems to be agreement in India is that there should be village plans, block plans and district plans and these plans should as far as possible be dovetailed in the state and national plans after properly integrating them. It is also agreed that such plans should be based on the available local resources and on the active consent and participation of the people concerned. It is only then that the potentialities of various resources available at the local level can be fully harnessed. It should be clear that in labour surplus, capital scarce, predominantly agricultural country, the growth strategy must aim at fuller utilisation of the surplus manpower in agriculture and allied activities and in small and household industries. Though certain basic industries should be developed simultaneously in the large sector, it should be

realised that by themselves such industries can neither absorb the rising labour force nor correct regional imbalances. Therefore more intensive utilisation of the labour force within the agricultural sector and in allied activities together with growth of rural industries should form the strategy in the initial stages of development in India.

This is the strategy which Dr. Kripa Shankar has insisted upon in *General Potentialities of Sultanpur — A Study in District Planning* as a result of his absorbing study of Sultanpur.

Sultanpur is one of the relatively backward districts of eastern Uttar Pradesh. In that district about 84 per cent of the population is dependent on agriculture, agricultural labourers forming as high as 32 per cent of the working force as against 19 per cent for the state of Uttar Pradesh as a whole. The average size of an agricultural holding is about 0.77 hectares and the net cultivated land per capita about 0.18 hectares. The net irrigated area is only about one-third of the net area sown.

In Sultanpur district during 1964-65 to 1971-72 when new agricultural technology was generally introduced, wheat production alone registered a steady increase from 47,819 tonnes in 1964-65 to 80,797 tonnes in 1971-72, rice showing moderate increase, while the production of other cereals either declined or stagnated. We also notice that production of sugar declined, so did that of sunn-hemp, while that of oilseeds stagnated. The consequence has been that the food-grains production has been rising only at an annual rate of three per cent. This is a very unsatisfactory position considering that 80 per cent of the caloric intake is accounted for by foodgrains.

### irrigation facilities

The author has emphasised that no programme of agricultural rejuvenation can succeed unless water supply is assured. He therefore has emphasised that the state should undertake in the district the installation of more tube-wells and construction of canals and the cultivators should be encouraged to have their own sources of irrigation because the new agricultural technology requires timely and frequent watering of fields. The commercial banks should be made to finance agricultural programmes in a big way, both directly and indirectly. The author has specially emphasised that the small farmer who has remained outside the vortex of new agricultural technology should be given a subsidy of at least 50

per cent for construction and boring of masonry wells. Also while all efforts are being made to tap underground water sources, equal emphasis should be laid on exploiting surface water resources as this step will not only protect the district from the ravages of floods but will serve as a great boon during drought years.

The author has emphasised the role of power in the growth process. The per capita consumption of electricity in Sultanpur district happens to be only 2 kwt. as against 58 kwt in the state and 90 kwt in India. Since power generation cannot be planned district-wise, the author has recommended that diesel sets should be provided to small cultivators at subsidised rates. The Rural Electrification and Agricultural Finance Corporation should play a more effective role in this field.

### cropping pattern

There is need to modify suitably the cropping pattern. Inferior cereals have been occupying a considerably larger proportion of the area and the author has recommended that some commercial crops such as soybean, sunflower, groundnut and cotton should be popularised as they are sure to bring more profit to cultivators. Also more area in the district can be brought under sugarcane, if a sugar mill is started in the district.

In the district, on an average, a village has about eight hectares of cultivable waste and 10 hectares of barren and uncultivable land. The author has recommended that since soil conservation measures are particularly required on either side of the river Gomti, a tree plantation programme should be undertaken in a vigorous way, both as a means of soil conservation and for fuel supply.

Animal husbandry has a very important place in the economy of the district, especially from the point of view of small farmers with less than 2.5 hectares of land. Artificial insemination, veterinary facilities and more liberal loans to agriculturists and cooperative dairy societies are some of measures advocated to foster dairy development in the district. Also there is great scope for poultry farming as also pig, goat and sheep rearing which should be encouraged through improved breeding and liberal finance, wherever necessary. Similarly a village pond development scheme should be launched and funds be provided for the purpose. Fisheries can easily be developed in such ponds and tanks.

As regards, industry, the author has

recommended the establishment of at least two sugar mills and two cotton spinning mills as also the revival of handloom industry to bring about diversification of the village economy. A rural industries corporation should be established and it should encourage local entrepreneurs with financial assistance.

The government should also take special steps to develop transport facilities which are at present meagre. The government should also provide more functional education. The medical facilities in the district are awfully lacking there being only two hospitals and 33 hospital beds per lakh of population. The author's suggestion in this regard is worth consideration by all the states. He rightly holds the view that the present system of medical education is urban-oriented and it is futile to expect that qualified private medical practitioners will settle in villages. And therefore he wants that an unconventional system of providing medical facilities to the rural poor must be evolved. India should evolve a system of "bare footed doctors" as the Chinese have successfully done.

Since the weaker section of the rural population cannot be shifted to urban areas or even to industries in the near future, the author has recommended a ceiling of five hectares of land holdings and redistribution of land among the weaker sections in the district. He wants that the resources of newly created Rural Development Fund should be particularly utilised to finance productive schemes of the weaker sections such as the development of agriculture, animal husbandry, poultry, pig-gery, fisheries, household industries and construction activities. Nationalised banks should come forward in a big way to assist this section of the village community.

There is no doubt that Dr Kripa Shankar's absorbing study has very important implications for the future strategy of planning in India which still seems to be based on the old strategy adopted since 1956. In order that planning may become meaningful for the people, they must be intimately involved in the planning process and plan implementation and above all in sharing the benefits of planned development. The author has shown the way, though certainly not for the first time, how planning process can be made "a lively affair for the people."

### Marginal Farmers

It is now generally agreed that the economic position of two important sections of the rural poor, viz, marginal farmers and landless agricultural labourers

has positively deteriorated vis-a-vis medium and large farmers since the commencement of planning in India. This has naturally resulted in widening income disparities in the rural sector. In order to counteract these trends in the rural areas, the government has initiated schemes such as the Marginal Farmers and Agricultural Labourers Development Programme (MFAL) aimed at improving the employment opportunities and levels of income by providing the two classes with necessary credit for making a more intensive use of their land and also to undertake subsidiary economic activities and creating employment opportunities through public works within the framework of local planning.

Considering the importance of the subject, Shri Ram Centre for Industrial Relations and Human Resources set out to study the impact of assistance received by the beneficiaries under the Marginal Farmers and Agricultural Labourers Development (MFAL) Programme on the income, employment, expenditure pattern and debt position of the poorer rural sections of the people in Mathura district in Uttar Pradesh. *Development of Marginal Farmers and Agricultural Labourers* contains the findings and suggestions based on the study.

### infrastructure facility

It is found that the MFAL Development Programme was established with a view to building up suitable infrastructure for providing adequate facilities to marginal farmers and landless agricultural labourers who are not in a position to offer security in terms of tangible assets and cannot get required credit from cooperative societies which happen to be dominated by big farmers belonging to higher castes. MFAL Development Programme has been designed to extend credit facilities exclusively to marginal farmers and landless agricultural labourers to make them economically viable and to improve their socio-economic position.

It was found that the ownership of not more than 2.5 acres as the criterion for eligibility for participation in MFAL assistance programme has undoubtedly reduced the possibility of bigger farmers monopolising the assistance. But it was found that in Mathura district nearly 42 per cent of cultivators cultivated more than 2.5 acres of land which means the real effectiveness of the MFAL scheme was restricted to only 58 per cent of the rural households cultivating 2.5 acres or less.

It was found that nearly one-third of non-beneficiary marginal farmers were not even aware of the existence of the

MFAL agency. This is a serious reflection on the effectiveness of the extension activities of the MFAL. Further, a large number of beneficiaries viewed the attitude of village level workers and veterinary doctors as non-cooperative or indifferent. Such a situation highlights the need for improving the existing situation in this field. It is however gratifying that a majority of beneficiaries reported a net increase in their household income due to MFAL assistance, although the increase was not found to be commensurate with their expectations. The MFAL assistance has also brought about, according to this study, significant changes in the occupational structure of beneficiary households.

### significant improvement

The additional income generated through MFAL assistance has positively affected the level and pattern of expenditure of beneficiaries. Their per household and per capita total as well as consumer expenditures are found to be significantly higher as compared with pre-assistance period. The figures of per household and per capita expenditure on food and non-food items incurred by beneficiary marginal farmers are significantly higher than those of non-beneficiary marginal farmers. All in all the incidence of poverty is observed to be much less in the case of beneficiaries than non-beneficiary marginal farmers.

While MFAL agency has brought about significant improvement in the living standards of beneficiary marginal farmers, the author however feels that "the effectiveness of the scheme can be further increased if necessary precautionary measures are taken at the stages of finalising the programme contents, their administration and implementation." The author has made the following suggestion for improving the effectiveness of the MFAL scheme.

The first suggestion that has been made by the author is that more care should be taken in selecting the would-be beneficiaries. This is because while selecting marginal farmers (i.e. those with 2.5 acres or less land) whether such farmers cultivated in addition leased land or not was not taken into account. The author wants that since the criterion of 2.5 acres or less is satisfactory, the above type of cultivators should be omitted from consideration of help under MFAL programme.

Another very important recommendation is that since the MFAL scheme appears to have omitted from consideration

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Considering the importance of the subject, Shri Ram Centre for Industrial Relations and Human Resources set out to study the impact of assistance received by the beneficiaries under the Marginal Farmers and Agricultural Labourers Development (MFAL) Programme on the income, employment, expenditure pattern and debt position of the poorer rural sections of the people in Mathura district in Uttar Pradesh. *Development of Marginal Farmers and Agricultural Labourers* contains the findings and suggestions based on the study.

### infrastructure facility

It is found that the MFAL Development Programme was established with a view to building up suitable infrastructure for providing adequate facilities to marginal farmers and landless agricultural labourers who are not in a position to offer security in terms of tangible assets and cannot get required credit from cooperative societies which happen to be dominated by big farmers belonging to higher castes. MFAL Development Programme has been designed to extend credit facilities exclusively to marginal farmers and landless agricultural labourers to make them economically viable and to improve their socio-economic position.

It was found that the ownership of not more than 2.5 acres as the criterion for eligibility for participation in MFAL assistance programme has undoubtedly reduced the possibility of bigger farmers monopolising the assistance. But it was found that in Mathura district nearly 42 per cent of cultivators cultivated more than 2.5 acres of land which means the real effectiveness of the MFAL scheme was restricted to only 58 per cent of the rural households cultivating 2.5 acres or less.

It was found that nearly one-third of non-beneficiary marginal farmers were not even aware of the existence of the

MFAL agency. This is a serious reflection on the effectiveness of the extension activities of the MFAL. Further, a large number of beneficiaries viewed the attitude of village level workers and veterinary doctors as non-cooperative or indifferent. Such a situation highlights the need for improving the existing situation in this field. It is however gratifying that a majority of beneficiaries reported a net increase in their household income due to MFAL assistance, although the increase was not found to be commensurate with their expectations. The MFAL assistance has also brought about, according to this study, significant changes in the occupational structure of beneficiary households.

### significant improvement

The additional income generated through MFAL assistance has positively affected the level and pattern of expenditure of beneficiaries. Their per household and per capita total as well as consumer expenditures are found to be significantly higher as compared with pre-assistance period. The figures of per household and per capita expenditure on food and non-food items incurred by beneficiary marginal farmers are significantly higher than those of non-beneficiary marginal farmers. All in all the incidence of poverty is observed to be much less in the case of beneficiaries than non-beneficiary marginal farmers.

While MFAL agency has brought about significant improvement in the living standards of beneficiary marginal farmers, the author however feels that "the effectiveness of the scheme can be further increased if necessary precautionary measures are taken at the stages of finalising the programme contents, their administration and implementation." The author has made the following suggestion for improving the effectiveness of the MFAL scheme.

The first suggestion that has been made by the author is that more care should be taken in selecting the would-be beneficiaries. This is because while selecting marginal farmers (i.e. those with 2.5 acres or less land) whether such farmers cultivated in addition leased land or not was not taken into account. The author wants that since the criterion of 2.5 acres or less is satisfactory, the above type of cultivators should be omitted from consideration of help under MFAL programme.

Another very important recommendation is that since the MFAL scheme appears to have omitted from consideration

landless agricultural labourers on the ground that financial institutions including commercial banks would not come forward to lend them on the ground that they cannot offer adequate and necessary type of security, there is immediate need to revise the traditional method of giving credit to only those who possess tangible assets as security. This is necessary in the framework of the special scheme designed for improving the economic condition of the rural weak.

Further, the Mathura experience has shown that more care is necessary before finalisation of programme contents in other areas and finalisation be done only after ascertaining the potentials of various programmes from prospective beneficiaries. This will require carefully planned survey of problems and requirements of marginal farmers and agricultural labourers. If possible, voluntary agencies and independent research organisations might be associated with such feasibility surveys. And also, once the various programmes are brought under the MFAL agency, effective extension programme might have to be undertaken to educate the would-be beneficiaries about the assistance available to them in order to motivate them to active participation in the scheme.

The author has insisted on adequacy and competence of the implementation staff of special schemes such as MFAL agency. The existing staff has proved both inadequate and inefficient. Also the staff should be adequately compensated. A very important suggestion made by the author is that periodic meetings of the beneficiaries should be held for educating other prospective beneficiaries regarding development schemes and for plugging up loopholes in the administration.

### **marginal farmers**

The author has further recommended that there will have to be change in the attitude of loaning institutions such as district central cooperative banks towards the marginal farmers who at present are out of their consideration for all practical purposes. In fact marginal farmers should be given some representation on boards of cooperative societies and banks as otherwise it is felt that such loaning bodies may not fully conform with the needs of either the MFAL scheme of the beneficiaries.

Also, since it is found that nationalised commercial banks do not fully cooperate in the schemes drawn up to help marginal farmers and landless agricultural labourers in spite of the Reserve Bank instruc-

tions, serious note should be taken of this failure and attempts should be made to see that such instructions are adhered to. This is necessary for the reason that non-availability of required finance should not hold up the implementation of this absolutely essential programme.

While repeated pronouncements are made to help the marginal farmers and landless agricultural labourers, not much seems to have been done so far to effectively help this unfortunate class of rural people. This experiment and the experience gained in its implementation should go a long way in helping the concerned authorities in suitably drawing up plans and in effectively implementing them. This study has made an attempt to show the path. The study also again brings to the fore the importance of micro studies in various fields including agriculture.

### **Administration of Economy**

Two contrasting pictures of the Indian economic development are often presented before us. On the one hand we are told that in India foundation of heavy and basic industries has been firmly laid; that agricultural production has been doubled within twenty-five years; that India has made rapid progress in providing infrastructural facilities to her industries and agriculture and thousands of villages are electrified and have been provided with educational and medical facilities. The consequence of all this has been that life expectancy in India has gone up considerably and with a certain amount of good luck (in regard to monsoon), the country could soon take off and be on the road to self generating rapid economic progress.

But then there is the other side to the picture painted by many critics of the government. According to them, India of the present day is in a deep quagmire; socialistic slogans have lost their face-value. In endeavouring to eliminate poverty, our representatives have been eliminating the poor and the proletariat. Maladministration of the country's economy by politicians and bureaucrats has resulted in rank corruption and nepotism in public administration. A vast majority of Indian people who have been living a life of abject economic subjugation fail to find any difference between their life at present and life in pre-independence days. In free democratic socialist India, the only guaranteed freedom which they seem to enjoy at present is the "freedom to die of starvation." "They have to go in quest of cow-dung and churn out therefrom a few grains of

wheat or gram, wash them and eat them to appease their hunger." This is India of the 1970s.

Of the two, which represents the true picture of India of the present day?

The author of *Political Administration of Indian Economy* seems to share the second view very ardently and writes about the government's failure in the economic and political fields with gusto and venom which often carries him beyond the bounds of literary decency.

The author is convinced that the real economic freedom has not yet dawned for millions of Indians. Political, moral and economic bankruptcy have held sway over the country. "Today our nation consists, by and large, of people without an iota of sense of sincerity, fidelity or loyalty to the motherland". Our leaders have been teaching gospels of austerity and patriotism without practising these gospels themselves. Hypocritical politicians have been ruining the country for the last two decades, instead of becoming the walking symbols of the preachings of the Mahatma whose teachings they swear by. Our presidents and ministers have been living in feudal glory that would put our erstwhile British masters into shame.

The author wants that all the elected officials—from the president downwards—live a simple life and that all declare their personal assets. They must all live a life that is in conformity with the poverty of the nation. All corruption charges against ministers and officials must be impartially gone into and the guilty should be severely punished. All waste of public funds must be stopped.

### **huge investment**

The author is very critical of the mismanagement of the public sector in India which has involved huge investment of scarce capital resources in the country. He has made an attempt to explain the well-known causes of inefficiency and failure of many of the public sector enterprises in India and has suggested the now well-known remedial measures.

There is no doubt that the quality of human material is the most important among the factors influencing the growth and development of a nation. From this it automatically follows that the major cause of the failure of India in various fields has been the failure of the human element. This means in a country where tradition of blind following is well entrenched, it is the failure of the Congress leadership that has brought India near a catastrophe. The Indian planners appear



to have lost sight of the moral dimension of economic planning which therefore got degenerated into planning for the governing elite in India with disastrous consequences for the vast masses who have come to be completely bypassed.

While it is not possible to find fault or disagree with the main thesis which the author wants to present in this book, the manner of presentation leaves much to be desired. What one gets in abundance in this book is the angry outburst of moral wrath long suppressed than cold and objective economic and political analysis of the deteriorating Indian scene. It is not enough if one's conclusions are right; one must also prove logically that they are so, if the conclusions are to carry weight.

### Monetary Management

India has accepted growth, stability and distributional justice as the goals of her economic policy. Economic growth essentially depends upon factor such as the country's resource endowments, the efficiency with which people make use of these resources and capital formation. R. J. Mody has made an attempt in *New Dimensions of Monetary Management* to prove that economic policies in India which have since 1956 come to rely heavily upon deficit financing for her development are not conducive to rising rates of saving and capital formation in the country. Also the author's contention is that forced saving programme which is implicit in deficit financing cannot be a success because of the absence of appropriate conditions necessary for such a policy. Once people anticipate inflation and when they do not have 'money illusion', forced saving programme will result in hyper-inflation. The author is also apprehensive that inflationary policies, if pursued over a long period, may gradually destroy financial institutions and markets which provide efficient mechanism for generation and utilisation of investible resources. The author's main contention is that "a high rate of economic growth can be attained only in a stable monetary framework."

India has also accepted the objective of distributional justice as one of the main objectives. Economic justice implies reduction in income inequalities and eradication of poverty. In order to realise this objective also price stability is absolutely essential because inflation tends to increase income disparities. Inflation may be said to be the most regressive form of taxation. Inflation thus effectively paralyses the anti-poverty measures. The author therefore has

come to the conclusion that economic stabilisation should be the main objective of monetary management in the country.

The author has made an attempt in this book to analyse monetary policy and management in India in the context of the objective of price stability.

Since there appears to be a high correlation between changes in money supply and changes in the price level in India, according to the author, the monetary goal of the Reserve Bank of India should be proper management of money supply. The Reserve Bank can carry out this function quite satisfactorily, if it is not committed to finance government's deficits by monetary expansion and to help government in its borrowing programme at low interest cost.

In order to regulate money supply, the Reserve Bank will have to regulate its credit to government and to the banking system. The author's analysis of the factors influencing money supply indicates that Reserve Bank's credit to government is the predominant factor responsible for monetary expansion in India since 1956. If the Reserve Bank is committed in advance to finance government's deficit, such a policy is bound to paralyse its stabilisation efforts. This means an effective stabilisation policy requires fiscal discipline and government's cooperation. Even assuming that it is extremely difficult to readjust government's spending each year according to changing economic conditions, it still needs to be emphasised that such adjustments are absolutely necessary for economic stabilisation.

### market rate

The author is also of the opinion that another important pre-condition of monetary stability is that "the market interest rate should correspond to the natural rate." This means interest rates should be realistic rather than being pegged down to lower levels. The author is convinced that pegging down interest rates at low levels will endanger monetary stability. This will also require government's cooperation. An appropriate interest rate policy will make government cost-conscious and investment decisions will be rationalised. Interest rates pegged down to lower levels will result in over-investment and misallocation of economy's resources. Also a higher rate of interest will encourage a higher rate of voluntary saving which is desirable for economic development of the country.

Regulation of bank credit to meet the seasonal fluctuation in demand for it

appears to have become the primary aim of the monetary policy of the Reserve Bank in recent years. But the author has warned that in the final analysis "credit management should actually be an integral part of monetary management." The monetary management should aim at management of money supply with the primary goal of reasonable price stability in view. Naturally this will necessitate proper coordination of monetary policy and fiscal policy between the Reserve Bank and the government.

In this book the author has analysed India's monetary policy within the framework of the Keynesian model. The author has very ably brought out the dilemma which the Reserve Bank of India is facing at present—achieving price stabilisation and meeting government's budgetary deficits and helping government in its borrowing programme. This excellent book is more than a mere survey of the monetary policy of the Reserve Bank of India—it is in fact an exercise in the analysis of monetary economics. The book should be of great use to post-graduate students of the Indian universities.

### Life Insurance

The structure of life insurance in India underwent a radical change in 1956 when it was nationalised with the purpose of "safeguarding the interests of the policy holders and mobilising people's savings for the implementation of Plan Programme." More than a decade has now passed and LIC appears to have taken deep roots. A thorough enquiry into the working and especially into the investment policy of the LIC would be timely. *Life Insurance Finance In India* has been written with this end in view.

The LIC is a very fertile field for critical enquiry and analysis which should highlight, (a) the nature and volume of people's savings through life insurance and the possibility of increasing them through reduction in the cost of insurance and expansion of life insurance business, (b) the contribution of life insurance finance to the growth of the Indian economy, (c) the considerations governing proper investment of life insurance funds, and (d) the accumulation of funds and their proper investment. It is the exploration of the above aspects of life insurance in India which the author has in view while writing this book.

It would be extremely instructive to know the findings of the author.

According to the author, life insurance has a vast potential in India, both in

urban as well as in rural areas. Premiums have to be reduced to bring this social security within the easy reach of the poorer sections of the rural population and there is definitely enough scope for this. Reduced premium and effective, efficient and devoted sales force appear to be the need of the hour.

Further, the LIC should economise its expenditure and bring down cost ratio by considerable expansion of business and spread of overheads over a larger volume of business. According to the author, reorganisation, rationalisation and mechanisation should be the watchwords for the future. The Morarka Committee on the LIC expenses had also come to the conclusion that there is considerable scope for economy and efficiency. The author also has endorsed the finding of the Morarka Committee in respect of organisation of the LIC into five or more autonomous parallel bodies, and the recommendation that any reorganisation should be effected within the existing framework, as unitary structure would certainly be more economical.

### flexibility robbed

According to the author the LIC needs freedom from captivity in framing its investment policy. The government's pressure on the LIC to invest in low-yielding securities in addition to statutory requirements has robbed the LIC of the flexibility so necessary in investment matters.

The author has also recommended that the LIC should make direct investment in rural areas in farm mortgages and others in a big way in order to make direct impact on the rural population. Similarly the LIC should provide finance to small business, which at present is completely neglected. Further, the LIC according to the author, should take greater interest in providing amenities such as housing in both urban and rural areas.

The author has made another very important recommendation. Policyholders who have a stake in the working of the LIC should have some control over the working of the LIC. He has suggested

the formation of a central policyholders' council for this purpose.

It is unfortunate that the attitude of the LIC to research has been deplorable. The author states that the LIC authorities needed a lot of persuasion to give information even on minor points. Their attitude towards research does not seem to be helpful. It is also unfortunate that the LIC has as yet no research and statistics department of its own. It is high time the LIC took research in its working a little more seriously and not only establish its own research department but also render the necessary assistance to research students in the field of insurance.

As an institution mobilising monetary

resources in the community, the LIC occupies very prominent place among the financial institutions. It can play significant role in influencing the investment pattern in the country. It is therefore unfortunate that various aspects of the working of the LIC do not appear to have received very careful attention.

Since the funds of the LIC are being regularly contributed by millions of persons in the country, it is rather unfortunate that the policyholders know so little about the working of the LIC. Mr O.P. Bajpai has rendered a signal service by laying before the general readers the manner in which the LIC is working and should in fact work.

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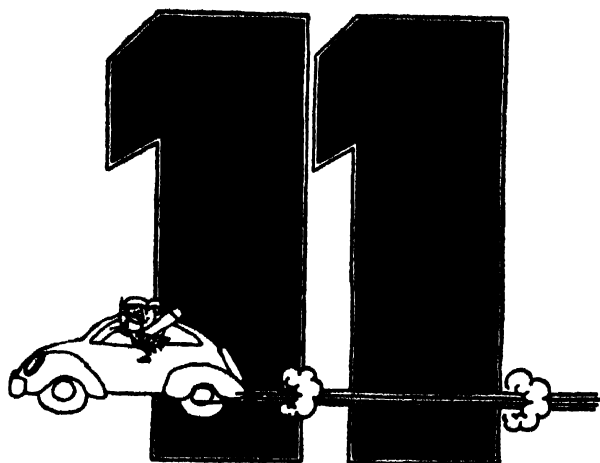
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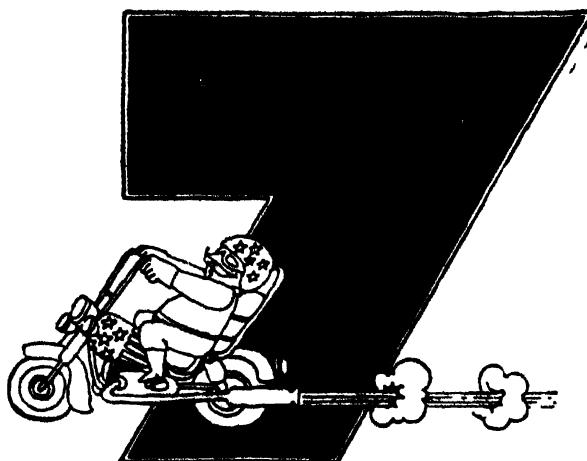
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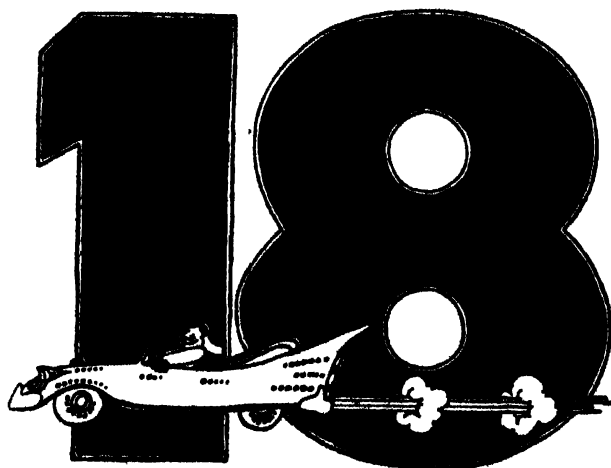
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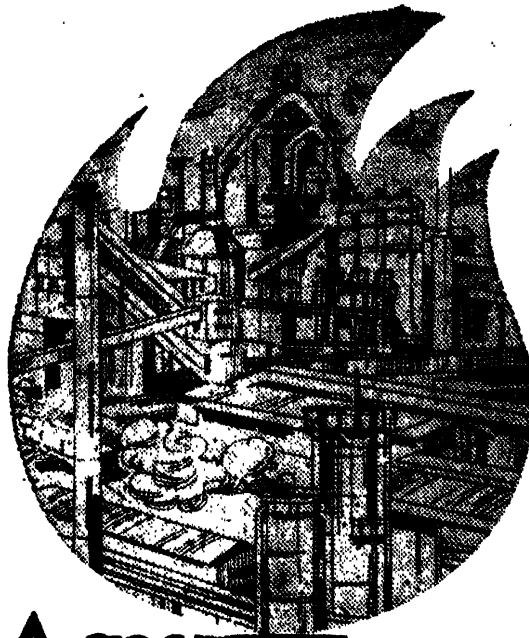
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# TRADE WINDS

## Increased Cane Prices

THE AGRICULTURAL Prices Commission (APC) has recommended a 12 per cent rise in the statutory minimum price of sugarcane for the year 1975-76 season, from Rs 8.50 to Rs 9.50 per quintal. The rate is linked to a recovery of 8.5 per cent with a proportionate premium for higher recoveries. The APC suggestion would normally entail a rise in the price of rationed sugar, whose rate is linked to the minimum cane price. The APC realises the need to avoid any such increase in view of the adverse effect it would have on the price index, and has therefore suggested that a share of export profits should go to sugar mills to compensate them for losses on levy sugar. It has also recommended higher excise duty on khandsari, so that there could be a diversion of sugarcane to the mills. A rebate on excise duty for increased sugar production has been suggested as an additional incentive to sugar mills.

## Cement against Foreign Exchange

The union government has introduced a new scheme for priority allotment of cement against inward remittance of foreign exchange. The scheme has taken effect from February 15. Under the scheme, intending consumers will have to ensure that the remittances of foreign exchange are received after February 15, 1975. So far, the priority allotment scheme against inward remittance of foreign exchange was only confined to the purchase of motor cars, scooters and tractors. The priority allotment scheme with respect to cement, as in the case of other schemes,

is applicable to Indian nationals returning to India from abroad and to relatives of Indians residing abroad, if they receive foreign exchange remittance from them for the purpose of purchasing cement.

The foreign exchange, equivalent to Rs 560 per tonne, will have to be obtained through overseas remittance by the applicants and be deposited in a non-convertible account with an Indian bank. The amount thus deposited cannot be retransferred abroad. The consumer will, however, have to pay to the supplier of cement only the actual price applicable for sales in India. The applicant will have to give an undertaking that he will not resell the cement allotted to him without the prior permission of the cement controller. The consumers are required to change to a "non-convertible account" with any scheduled bank in India dealing in foreign exchange, as also the application form for priority allotment of cement.

## IDA Credit

About 850 medium and large scale industrial enterprises will be able to maintain and expand production with a credit of \$100 million from the International Development Association (IDA), an affiliate of the World Bank. The credit will meet part of the foreign exchange requirements of about \$911 million during 1975-76 for imports of raw materials, components and spare parts. The industries selected are tractors and power tillers, fertilisers, pesticides, electrical equipment, aluminium smelting, commercial vehicles, automotive ancillaries, castings and forgings, machine tools,

heavy construction equipment and spare parts for heavy earth moving and power generating equipment. The IDA credit will be extended to the government for 50 years, including a 10 year grace period. It will be interest free, but will carry a service charge of 3/4 of one per cent to cover IDA's administrative costs.

The IDA has also approved credit of \$45 million to help finance the completion of a barrage across the Godavari river in Andhra Pradesh. The project will ensure continued availability of perennial irrigation water in the 400,000 hectares command area. The project is scheduled for completion in 1979 at a total estimated cost of \$70 million, including the foreign exchange cost of \$20 million. The IDA credit will meet about 64 per cent of the cost of the project. The Andhra Public Works Department will execute the project.

## UNDP Assistance

The United Nations Development Programme (UNDP) will assist India in the development of new fibres and composites. This would be taken up under a project that is designed to generate additional employment opportunities in agriculture, fisheries and chemical industries. The project would utilise what is known as "composite materials technology." This is stated to be labour-intensive and science-based and adaptable to Indian conditions. Using it, for instance, in the plastics industry which is now rapidly developing in India, a wide range of composites could be developed by reinforcing the strength of plastics with suitable fibres. UNDP assistance will cover the foreign exchange component of imported equipment, training of qualified staff from research laboratories participating in the project and visits by international experts from abroad for specific purposes and specific periods.

## Cabinet Changes

Mr Kamalapati Tripathi, was appointed minister of Railways to fill in the vacancy caused by the death of Mr L.N. Mishra.

He will present the Railway Budget for 1975-76 on February 20. A Rashtrapati Bhavan communique stated that Mr Tripathi's portfolio of Transport and Shipping has been assigned to Mr Uma Shankar Dikshit, hitherto minister without portfolio.

## Indo-Rumanian Accord

India and Rumania have reached a settlement on the long-standing issue of price for ships. In terms of the settlement, India will have to pay substantially higher prices for eight ships still to be delivered by Rumania. Under a fixed price contract, Rumania was to supply ten ships, with deliveries to be completed by 1976. Later, however, Rumania asked for a price increase on the ground that the cost of ship-building had escalated. The matter was under negotiations for past many months. An Indian shipping delegation comprising Mr M. Ramakrishnya, Secretary in the ministry of Shipping and Transport, and Adm. Nanda, Chairman of the Shipping Corporation, held talks recently in Bucharest with the Rumanian shipping authorities and a formula was finally hammered out. As per the formula, Rumania has agreed not to charge increased prices for two ships already delivered. But for the remaining eight ships, the price rise will be 40 per cent, as against the Rumanian demand for cent per cent increase. Since agreement on price has taken so much of time, the Rumanian side, according to reports received by the Shipping ministry here, has assured the Indian delegation that it will stick to the original delivery schedule.

## Indo-Yugoslav Joint Ventures

India and Yugoslavia have agreed that they should immediately explore possibilities of setting up joint ventures in the oil-rich Gulf countries. The idea was discussed at Indo-Yugoslav joint committee meeting in New Delhi recently. The Indian delegation to the meeting was led by the union Commerce minister, Prof D.P.

Chattopadhyaya, and the Yugoslav delegation by Dr Vratusa, deputy prime minister. Dr Vratusa welcomed the idea of setting up of joint ventures in third countries, particularly in the Gulf countries, and wanted the proposal to be given concrete shape immediately. Dr Vratusa was particularly keen on having joint ventures in third countries in the field of shipping and wanted the proposal to be expedited before the opening of Suez Canal.

The Indo-Yugoslav sub-committee on joint ventures in third countries, which met here recently submitted its report to the joint committee. Both the delegations noted that views of India and Yugoslavia were identical on the issues of raw materials as stated in the recent declaration of non-aligned countries at Dakar.

### Dual Voltage Locomotives

The Chittaranjan Locomotive Works (CLW) will manufacture 53 dual voltage AC/DC locomotives during the current year for high speed passenger and heavy goods trains, according to a spokesman of the works. The CLW produced first dual voltage locomotive in the country to mark its silver jubilee. Commissioned in 1950, it has produced 2,341 steam and 469 electric locomotives. These locomotives from Chittaranjan were now hauling passenger and goods trains in various parts of the country. The CLW had stopped producing steam locomotives—the last of which steamed out on February 5, 1972.

### Bhatinda Fertiliser Unit

The construction work on the Bhatinda fertiliser factory, a public sector project, to be built at a cost of Rs 150 crores has begun. Talking to newsmen recently Mr J.P. Pandey, Punjab's minister for PWD, stated that the project was expected to be completed in 1977. In addition to providing jobs to about 1,000 technicians, it would produce 2.2 million tonnes of ammonia, 511,000 tonnes of urea and 8,250 tonnes of

sulphur every year. Japan is providing the technical know-how and financial assistance for the project.

### Excess Capacity for Exports

The centre has decided to regularise excess capacities of all licensed undertakings, if the excess production is meant for exports. This is subject to the condition that no additional equipment would be needed and that the value added is reasonable. This would benefit industrial undertakings which are capable of producing more than 25 per cent of their capacity normally allowed for extra production. The monopoly houses would also be eligible for the relaxation. But their applications would be screened by a task force to be set up for this purpose in the ministry of Industries and Civil Supplies. The government has also announced the procedure and formula for fixing the capacities of those undertakings which have been asked to get themselves registered under the amendment made to Section 10 of the Industries (Development & Regulation) Act in 1973. In fixing the capacities of such units liberal view is to be taken for exporting units.

### Trade with Finland

The Indo-Finnish trade is being reviewed in order to impart increased viability to the current flow of trade between the two countries. A high-level delegation led by the Finnish minister for Foreign Trade, is in the country to participate in the review. According to official sources, trade talks seek ways and means of increasing the volume of Indo-Finnish trade. The share of this country is less than one per cent of the global imports of Finland. Indian exports to Finland amounted to Rs 55 lakhs in 1970-71. But this recorded an increase to Rs 211 lakhs in 1973-74. During the first five months of the current year, India's exports to Finland amounted to Rs 66 lakhs as compared to Rs 44 lakhs during the corresponding period of the previous year. Indian im-

ports from Finland also increased from Rs 235 lakhs in 1970-71 to Rs 410 lakhs in 1973-74. Import figures for the first five months of 1974-75 were Rs 265 lakhs as compared to Rs 105 lakhs in 1973-74. Textiles, particularly handloom fabrics constitute India's main exports to Finland while paper and paper boards including newsprint form the principal imports from Finland.

### World Tea Output

The shortfall noticed in the world tea output in the first 10 months of 1974 was narrowed down and at the end of November 1974 production stood unchanged at 760.2 million kg. The improvement was largely due to the rise in north Indian output from 322.9 million kg to 337.2 million kg in the first 10 months of 1974. Bangladesh accounted for a rise of 3.3 million kg at 25.4 million kg in the first 10 months of 1974. South Indian output recorded a fall of two million kg at 99.7 million kg in 1974 on account of the strike in Kerala during August-September and drought conditions experienced in some of the tea growing districts.

Sri Lanka's crop declined for the third year in succession and the estimated output for 1974 is 201 million kg as compared to 211 million kg in 1973. Compared to the 1965 levels, Sri Lanka's output is down by as much as 27 million kg in 1974. In spite of the severe drought noticed in the first few months of 1974, East African figures did not show sharp drop in 1974. Even Kenya, whose crop was down by 40 per cent during January-April 1974 reported a loss of hardly seven per cent at 47.5 million kg at the end of November.

### Rural Banking

Rural centres had a significant share in branch expansion of commercial banks in 1974, according to a recent review by the Reserve Bank of India. The numbers of bank offices in rural centres went up from 6,023 in December 1973 to 6,631 in December 1974 out of a total bank net work of

18,180 branches. Since the nationalisation of 14 major banks in July 1969, 9,918 bank offices had been opened till December last year. Of these 48.4 per cent were opened in the rural centres. The review stated that the national average of population served per bank office declined from 33,000 in December 1973 to 30,000 in December 1974. The figure stood at 65,000 in June 1969. The review pointed out that out of the 1,693 new offices opened last year, 526 offices (31.1 per cent) were in unbanked centres. The percentage of offices opened in unbanked centres was 35.8 in 1973 as against 47.5 in the previous year. This decline is attributed mainly to the fact that since the opening of a large number of branches the number of such unbanked centres having reasonable banking potential is on the decline, according to the review.

### World Trade

The current economic slowdown is beginning to affect world trade flows, as shown in the latest issue of International Financial Statistics published by the IMF. World exports reached an estimated value of US \$189 billion in the third quarter of 1974, and while this represents a 43 per cent increase over the estimated \$132 billion in the third quarter of 1973, larger increases — by 48-50 per cent — had been registered between the first quarters of 1973 and 1974 as well as between the second quarter of those two years. These increases in the value of world trade are considerably inflated by the underlying sharp rise in export prices, and the real volume of world exports is estimated to have risen only slowly from the third quarter of 1973 to the third quarter of 1974. (World total in IFS do not include figures for the Soviet Union, eastern Europe, the People's Republic of China and related areas.)

The combined export value of the industrial countries showed an increase of 32 per cent from \$94.9 billion in the third quarter of 1973 to \$125 billion in the third quarter of 1974.

Their exports had risen by 36 per cent from the first quarter of 1973 to the first quarter of 1974. Other developed areas (non-industrial Europe, Australia, New Zealand and South Africa) increased their export value by 24 per cent from \$8.8 billion in the third quarter of 1973 to \$10.8 billion in the third quarter of 1974, against a 31 per cent increase between the first quarters of both years. Export values of less developed areas excluding oil exporting countries went up by 27 per cent from an estimated \$17.3 billion in the third quarter 1973 to \$22 billion in the third quarter of 1974 against an increased of 46 per cent between the first quarters of 1973 and 1974. Export values of less developed areas including oil exporting countries went up by about 90 per cent between the third quarters of 1973 and 1974 compared with 95 per cent between the first quarters of both years.

### Fertilisers from Poland

This country will import 230,000 tonnes of fertilisers from Poland this year. This will comprise 180,000 tonnes of urea and 50,000 tonnes of calcium ammonium nitrate. An agreement to this effect was signed recently by Mr S. K. Agarwal, General Manager Minerals and Metals Trading Corporation, and Mr J. Kowalski, Director of CIECH, a Polish agency. This follows the amicable settlement of the differences on prices which cropped up during negotiations recently. With the latest contract, MMTC has so far finalised arrangements for the import of a total quantity of 767,000 tonnes this year. Contracts have already been signed with the Soviet Union for 267,000 tonnes, Rumania 200,000 tonnes and Bulgaria 70,000 tonnes. The corporation hopes to sign agreements soon with other countries including Hungary, the German Democratic Republic and the Democratic People's Republic of Korea.

### Coir Exports

Over 26,300 tonnes of coir and coir goods valued at Rs 10.30 crores were exported from this country during April-

Novembr, 1974, as against 29,000 tonnes valued at Rs 9.62 crores during the corresponding period of the previous year. According to the Coir Board, coir yarn was one of the major items of export and fetched over Rs 462 lakhs. This was followed by coir mats and coir matting. During the reported period, 75 quintals of rubberised coir goods valued at Rs 8,780 were also exported.

### Asian Rice Trade Fund

An Asian Rice Trade Fund is being set up under the aegis of the United Nations to promote trade in rice among the developing countries of the region. India, Bangladesh and Sri Lanka have already deposited their instruments of acceptance of the fund agreement with the UN. The Philippines, South Viet Nam and Khmer Republic have intimated their acceptance of the agreement to join it. The main purpose of the fund would be to undertake or arrange finance for rice sales between member-countries involving deferred payments initially up to a period of five years.

### World Cashew Community

A proposal to set up an international cashew community with representation for African countries of Kenya, Tanzania and Mozambique was made recently by Mr Santaram N Zantye, Chairman of the Indian Cashew Development Council. Addressing a meeting of the council recently he said that along with an agreement with Mozambique the biggest producer of raw cashewnuts, which would assure a regular supply of raw nuts, India should make concerted efforts to increase indigenous production of nuts to bridge a production gap of 200,000 tonnes to keep its industry going. The chairman urged the Cashew Corporation of India (CCI) to utilise a substantial chunk of its profit for increasing indigenous production.

### Sugar Prospects

President of the Indian Sugar Mills Association, Mr P. Maruthai Pillai, recently stated

that the cane arrears during the current crushing season would mount fairly high unless the government took some immediate steps to improve the economic viability of the industry. Addressing a press conference recently, Mr Pillai pointed out that while the free sugar market continued to be sluggish, the industry was saddled with a loss of Rs 43 crores. He, therefore, called upon the government either to increase the price of levy sugar or give a share of the profit out of the huge export earnings to the industry. According to the ISMA president, the price of levy sugar should be increased by at least Rs 25 per quintal. The sugar production during the current year would be of the order of 4.4 million tonnes. He suggested that the government could, thus easily afford to export at least 1.2 million tonnes to earn a foreign exchange of Rs 1,000 crores.

Mr Pillai was of the firm view that export of 1.2 million tonnes of sugar will in no way have any bearing on the prices of sugar in the home market. The monthly sugar release for internal consumption is of the order of 250,000 tonnes. The timely winter rain and favourable weather conditions and as a result of high prices of cane paid by the factories, sugar prospects for the current season had improved considerably. To take advantage of the extremely favourable conditions, including high prices of sugar in the international market, Mr Pillai urged the government to go all out to enter into firm commitments for export of 1.2 million tonnes.

### Bihar's Poverty

Mr K.K. Birla, President of the Federation of Indian Chambers of Commerce and Industry, called upon the business community to maximise dialogue with the government and labour in order to make the country strong and self-reliant. Addressing the Bihar Chamber of Commerce, Mr Birla regretted that Bihar continued to be a poverty-stricken state in spite of its abundance of natural resources, particularly mineral wealth. He suggested

that the Bihar Chamber of Commerce and the state industries board should concertedly make a thorough study of the factors responsible for the state's chronic backwardness. In his view, there were apparently three main reasons for the abnormal incidence of poverty in the state. One was the fact that north Bihar had no industry yet, except sugar. Secondly it was an over-populated region. And lastly its rural economy was still decadent and anaemic. Referring to the State of National economy, Mr Birla identified the three major problems confronting the country as inflation, shortage of foreign exchange and recession. But the last one, he hoped, would not last more than four or five months.

### Company Notice

#### The Calcutta Electric Supply Corporation Limited

(Incorporated in England)  
7½% DEBENTURE STOCK  
1980

#### INTEREST FOR THE HALF YEAR ENDING 14TH APRIL 1975

Notice is hereby given that Interest at the rate of Rs. 38.75P (less Indian Income Tax) per Rs. 1,000/- of Stock will be paid on 15th April, 1975 to Debenture Stockholders registered in the Books of the Company on 2nd April 1975. Applications for transfers received at the Company's Office at Victoria House, Post Box 304, Chowringhee Square, Calcutta, upto 2nd April, 1975 will, if otherwise satisfactory, be registered at that date for the purpose of participation in the above Interest.

Debenture Stock Transfer Book will be closed from 3rd April, 1975 to 14th April, 1975 both days inclusive.

By Order of the Board,  
S.K. NIYOGI  
Secretary

VICTORIA HOUSE  
CALCUTTA-700001  
4th February, 1975



# COMPANY AFFAIRS

## Markets Buoyant

BUOYANT CONDITIONS were witnessed on the stock exchange during last week. The Finance minister, Mr C. Subramaniam's optimistic note about the general economic situation and his remarks that the forthcoming budget would be production-oriented and would stimulate savings and investment cheered up market sentiment. Coming close on the heels of the Finance ministry's assessment that it is the low return on equity following dividend ordinance that has caused slump in prices and scared away prospective entrepreneurs and underwriters of new issues, the Finance minister's statement was promptly interpreted to mean a possible substantial relaxation in dividend curbs. With commodity price index showing a decline investors were in a gay mood and hastened to lend support at rising levels. As a result share prices moved up briskly and closed at the week's base levels. The turnover also broadened during the week.

Dalal Street opened the week on a steady note with prices of leading equities fluctuating both ways in the first part of the week but moved up smartly towards the week-end on frantic short-covering and sustained speculative buying support at all levels. The week concluded on a cheerful note. The Calcutta Stock Exchange ruled steady during the week under review with prices improving over a broad front. The turnover also recorded a handsome rise with a large number of shares coming into business. There was improvement in the general sentiment in the Madras Stock Exchange during the week. Neither the power cut

nor the prospect of a greater power cut seemed to affect the sentiment as the market was eagerly looking forward to a production-cum-investment oriented budget for 1975-76.

## Larsen & Toubro

Larsen and Toubro has reported commendable progress during the first nine months of the current financial year, with production, turnover and outstanding orders recording significant-improvements over the corresponding period of last year. The turnover during the period rose spectacularly to Rs 40 crores registering a jump of nearly 50 per cent over the figure of Rs 26.7 crores in the corresponding period of 1973-74. It is significant to note that the sharp rise in sales has stemmed more from a larger volume of sales than due to higher prices on account of inflation. The company has fared extremely well on the production front too. The volume of the output for the period amounting to Rs 26 crores as against Rs 17.5 crores in the same period of 1973-74, the increase being of the order of about 50 per cent. The booking of orders has also shown an encouraging rise of 53 per cent over the preceding year's level. The considerable improvement during the first three quarters of the current year thus ensures that the company despite power cuts and raw material shortages will close the year 1974-75 with a stronger base for further impressive growth and profitability.

## Bajaj Auto

Bajaj Auto has concluded an agreement with P.T. Tunes Bekasi Motor Company of Jakarta for the supply of know-how for the manufacture of scooters and three-

wheelers. The agreement covers a period of 10 years and production of a minimum of 230,000 scooters and 20,000 three-wheelers during the period of the agreement. The company will supply scooter and three-wheeler components in CKD condition. The company will earn foreign exchange equivalent to Rs 150 per scooter and Rs 300 for three-wheeler which will bring in Rs 4 crores by way of technical know-how fees. Much larger amount of foreign exchange will be earned by way of exports of CKD packs. This is the first agreement by Bajaj Auto offering its technical collaboration to a foreign country.

Meanwhile the company has concluded another agreement with Paijifa Industrial Company Limited of Taiwan. According to the terms of this agreement the company will provide technical know-how and export components to Taiwan for a period of 10 years. It is expected that the company would earn free foreign exchange worth more than Rs 2.5 crores over the period by way of technical fees alone. Besides a substantial amount of free foreign exchange would be earned by exporting during the period at least 125,000 scooters in CKD condition to Taiwan.

## Siemens India

Siemens India has embarked upon a major diversification programme. It has received licences and letters of intent for dental units, variable speed drive systems, motor control modules, a new range of railway signalling equipment, AC synchronous machines and DC machines. In addition to this, it has received ad hoc manufacturing licences for control equipment

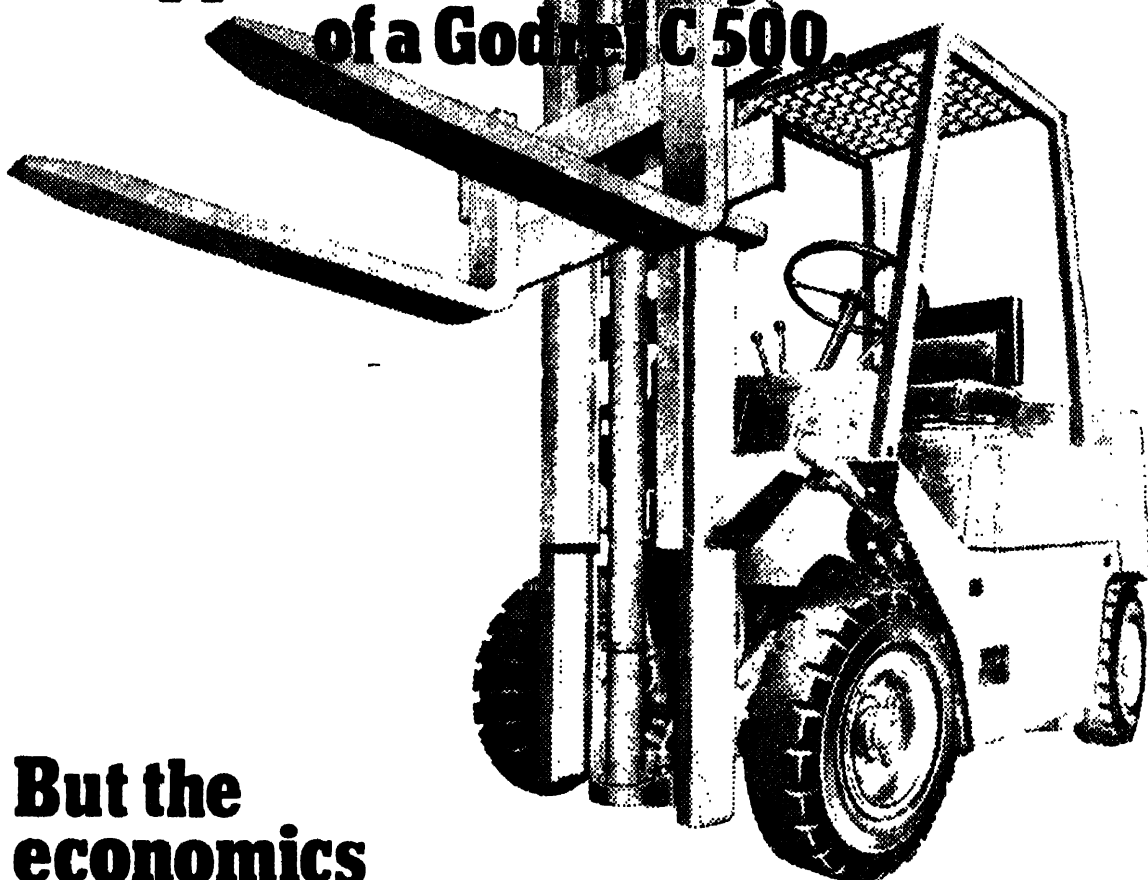
for power generation and transmission as well as power lines carrier communication terminals and accessories for IDA-financed state electricity board orders. The sharp improvement in the company's performance during the past few years has been mainly due to development of new product lines and expansion in the field of electronics, switchgear communication, X-ray equipment and medical engineering.

## Indian Aluminium

The board of directors of Indian Aluminium Company Limited has recommended payment of a dividend of Re 0.90 per fully paid ordinary share which is within the ceiling imposed by the Companies (Temporary Restrictions on Dividends) Act, 1974. The new ordinary shares issued in 1974 will be entitled to this dividend proportionate to the amount paid up on these shares on the date of declaration of the dividend. The directors have also recommended a dividend of Rs 6.25 per preference share. The year 1974 was a difficult year for the company. Power cuts imposed on the company's smelters reduced aluminium output by some 33,000 tonnes or almost a third of planned production, while prices of major raw materials and essentially all other costs rose by unprecedented amounts. Equipment procurement problems hampered construction work on the second 10,000 tonnes per annum capacity for pot room at Belgaum and it is now scheduled for completion by May 1975.

For the aluminium industry in the country, as a whole, metal output in 1974 fell to the lowest level since 1968, essentially due to power shortages and, at the 1974 year end, about 100,000 tonnes of effective capacity lay idle principally for this reason. The company's sales including excise duty totalled Rs 673 million in 1974 as compared to Rs 600 million in 1973. Shipments of aluminium in 1974 were 66,565 tonnes, of which electrical conductor and commercial grade metal accounted for 55

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The transmission drive line components in a C 500 are rated for 6 tonnes, though the trucks themselves are rated for only 2.25 and 3 tonnes. So it has enough reserve strength to handle shock and impact overloads under which other trucks break down altogether.

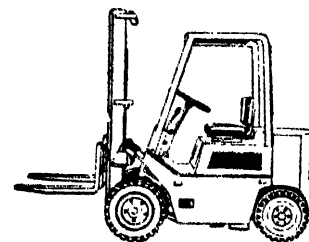
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er cent. Net profit after provision for development, rebate reserve and taxes was Rs 34.0 million in 1974 as against Rs 6.4 million reported in 1973. The year's net profit exceeded that achieved in 1973 due to a major reduction in tax provision arising out of tax holiday relief on the initial stage of the Belgaum smelter project. In arriving at the 1974 net profit, provision has been made for Rs 17.8 million for development rebate reserve and Rs 8.2 million for taxes. The company's register of members and share transfer registers will be closed from April 3 to 23, 1975, both days inclusive.

### Khandelwal Udyog

Khandelwal Udyog proposes to amalgamate with the Acme Manufacturing Co. Ltd. The scheme of amalgamation, which is at present before the shareholders, suggests that one equity share of Rs 100 of the Khandelwal Udyog will be treated on par with one fully paid up 10 per cent cumulative redeemable third preference share of Rs 100 and 15 fully paid up equity shares of Rs 10 each of the Acme Manufacturing Co. Ltd. The amalgamation is aimed at achieving the best use of the resources available with both the companies. Acme has a large machining facility, tool room, assembly facilities and is situated in a strategic location not too far away from Khandelwal Udyog. As the facilities at Khandelwal Udyog are limited, it has to off-load large volume of orders on hand. The amalgamation is expected to solve this problem.

### ICICI

The net profit of the Industrial Credit and Investment Corporation of India (ICICI) after providing for depreciation, taxation, etc. amounted to Rs 244.82 lakhs in 1974 as compared to Rs 219.53 lakhs in the preceding year. The directors have recommended a dividend (subject to deduction of tax) at the rate of 10 per cent per annum on the face value of the equity shares in proportion to the amount paid up or at such lower rate (which at present

works out to 6.5 per cent) as may be permissible under the provisions of Companies (Temporary Restrictions on Dividends) Act, 1974, applicable at the date of declaration of dividend by the shareholders.

### Gammon India

In order to off-set the effect of lean cycles in the construction business, Gammon India Ltd proposes to diversify its activities. The company has formulated plans for the manufacture of large diameter impellers for a installation in cooling towers required for industrial plants and power stations. The design of impellers is already in an advanced stage. The necessary registration for instituting it as a commercial activity, has been received from the Directorate General of Technical Development. The purchase of land at Badlapur near Bombay from M.S.I.D.C. has been completed and the preliminary arrangements for the construction of the premises has been initiated. The funds required for this purpose will be raised partly from the company's resources and partly from the financial institutions, banks and others.

### Polygas

Polygas which is setting up an oxygen plant at Bhavnagar (Gujarat) expects to start trial production by May and commercial production by June 1975. The company has also received an import licence for cylinders and arrangements are being made to import the cylinders well before the plant is commissioned. The company made a public issue of 1.5 lakh equity shares of Rs 10 each at par in October 1972. At that time it was envisaged that the oxygen plant, to be imported from Russia on deferred payment basis and on rupee payment terms, would go on stream by the end of 1973. The company is now getting its plant from Indian Oxygen.

### Unit Trust

The sale and repurchase prices of the units of the Unit Trust of India were raised by

five paise each to Rs 10.55 and Rs 10.25 per unit respectively with effect from February 14

### News and Notes

After a spell of about fourteen years, Indian ships will now once again be calling at the Portuguese ports and m.v. Jalapalaka owned by The Scindia Steam Navigation Co. Ltd, is presently in Lisbon loading a parcel of corkwood and generals for Bombay. This is the first Indian vessel to call at a Portuguese port after the re-establishment of diplomatic relationship between India and Portugal.

**The Indian Farmers Fertiliser Cooperative Ltd** is a unique venture. It was registered as a multi-unit cooperative society on November 3, 1967. Within its short period of existence it has become well known to the farming community. This has been achieved by a unique combination of promotion and service which characterises its marketing operations. As a marketer of fertiliser, IFFCO has a special advantage, being part of a widespread cooperative system. It is owned by cooperatives and according to its founding principles its products are marketed only through cooperatives.

The IFFCO complex has its two plants at Kalol and Kandla in Gujarat. The Kalol plant is an ammonia-urea plant with a designed output of 396,000 tonnes of urea per annum. The Kandla plant, an NPK plant, has an output of 375,000 tonnes of NPK per annum. Together, they form what was initially conceived of as a single unit, which was later separated into two with different locations for technical and economic reasons, the major consideration being the possibility of using natural gas available from the Kalol gas field. Part of ammonia produced at Kalol is transported to Kandla by tank cars which constitutes a special characteristic of the IFFCO operations. IFFCO proposes to set up two projects in the fifth Plan. The ammonia-urea complex with

a capacity of five lakh tonnes of urea per annum will be built at Phulpur, near Allahabad, with an investment of Rs 160 crores. The special facilities at Kandla port are being made use of for constructing a phosphoric acid plant and for the expansion of the existing NPK plant capacity to 900,000 tonnes per year. These will cost about Rs 65 crores.

### New Issues

**L.G. Balakrishnan & Brothers Ltd** is offering equity shares worth Rs 24 lakhs in shares of Rs 10 each for cash at par for subscription. Out of this 169,000 equity shares are offered by way of public issue and the remaining 71,000 shares are being offered for sale by the existing shareholders. The subscription list opens on February 24 and will close on March 5 or earlier but not before February 26. The company is engaged in the manufacture of a wide range of engineering goods such as automotive roller chains, industrial roller chains, automobile bus and lorry bodies and reclaimed rubber. The company also runs fleet of passenger buses and has an automobile parts trading and service business. It proposes to establish production of additional items such as chain tensioners and sprockets. It also proposes to expand the production and sale of roller chains and reclaimed rubber to the licensed capacity available. For these purposes a total capital investment of Rs 20 lakhs is envisaged. The proceeds of the present issue will provide a part of the resources required for the implementation of these schemes.

**Hindustan Bulk Carriers**, a new shipping venture by Chowgules will be entering the capital market shortly with a public issue of Rs 194 lakhs comprising 13,40,000 equity shares of Rs 10 each and 60,000 (11 per cent) cumulative redeemable preference shares of Rs 100 each at par. To start with the company proposes to acquire one large bulk carrier of 64,000 DWT for which an order has been placed with Cockeril

Shipping Yards, Hoboken, Belgium. The same yard had recently delivered a bulk carrier to Chowgule Steamships. The vessel is priced at 735 million Belgium Franc, about Rs 15.98 crores. It is scheduled for delivery in October 1976.

## Guidelines for Shareholders

The National Forum of Shareholders has circulated for general information certain guidelines for shareholders asking questions at annual general meetings. The guidelines are as follows:

Directors' Report should state the nature of the working of the company after the close of the accounting year, the date of the Directors' Report giving specific figures of turnover as compared to the same period together with the trends in profitability. The outlook for the remaining months and the whole year should be enquired at the meeting.

Directors' Report has to be examined whether it deals with any controversial subject, any scheme for diversification, issue of right or bonus shares. These matters should be got fully elucidated by drawing attention to these points.

Special business in the notice may be looked into carefully to ascertain whether the changes are in the best interests of the company as also not prejudicial to the interests of the shareholders.

Whenever relatives are to be appointed on remunerative posts, their age, experience, special qualifications have to be enquired into.

Details of donation made should be called for when the amount is high in relation to the net profits of the company.

Production and sales charts indicating quantity and value have to be examined with reference to last year's performance. Reasons for declines, if any, have to be asked for. Mere "Load Shedding" "Labour Trouble" should not satisfy as these are common factors. No

company can run unless these factors are properly and adequately overcome.

Where the reserves are more than the paid-up equity share capital and if the earnings are good and stipulations of the government are satisfied, the management should be pressed to issue bonus shares.

Sole selling agency for items which are in short supply and command a large premium such as paper, cement, vegetables, rubber goods etc. should not normally arise. If certain commission is paid to agents etc., it should not normally go beyond the percentage of rise in turnover.

Increase in expenses under various heads as compared to last year should not normally vary beyond the percentage of increase in turnover and inflation rate. Any excess should not only be got explained but a rigid control on them in the future should be insisted. Expenditure under head "Miscellaneous Expenses" has to be enquired into and details asked for, if the amount is high.

Fall in receipts under different items should similarly be enquired into.

Increase in the cost of production should be reflected in increase in sale price. This can be checked by comparing the profit margins i.e., percentage of sales to cost of consumption of raw materials for two consecutive years.

Average rates of closing stock of each item of production sale should be compared with average rates of opening stock and sale. Wide disparities in the revaluation should be brought to the notice of the company for proper elucidation since under-valuation of the closing stock will result in lower profits.

Compare the profitability with companies of similar nature. If the profit on capital employed (Paid-up capital & reserves) is lower, reasons should be asked for.

Capital commitments to be looked into to find out the progress of expansion schemes and profitability of the same.

Promises, announcements and expectations made in the prospectuses or last year's Director's Reports should be enquired into and reasons for not fulfilling them should be called for.

Shareholders should ask for giving/circulation of replies to the queries raised by the members through post even if the querist is not present at the meeting.

In regard to public deposits, Directors' Report should reveal the information of total expenses incurred including in-

centives to depositors commission paid to Deposit Broker: as in many cases these expenses are as high as 10 per cent of the deposits received with the result that the interest coupled with these expenses are more than 25 per cent per annum which is a very high figure.

Income-tax assessments and amounts disallowed to be enquired to find out excess expenditure incurred by the company which entails double payment of income-tax.

List of top 10 shareholders be obtained to find out the actual controlling interests and the changes that have taken place during the year.

Disposal of assets particu-

## Dividends

(Per cent)

| Name of the company      | Year ended      | Equity dividend declared for |               |
|--------------------------|-----------------|------------------------------|---------------|
|                          |                 | Current year                 | Previous year |
| <b>Higher Dividend</b>   |                 |                              |               |
| Herbertsons              | March 31, 1974  | 10.00                        | 4.00          |
| Precision Bearings India | August 31, 1974 | 12.0                         | 10.0          |
| <b>Same Dividend</b>     |                 |                              |               |
| Chitavalsah Jute Mills   | July 31, 1974   | Nil                          | Nil           |
| J.K. Steel               | June 30, 1974   | Nil                          | Nil           |
| <b>Reduced Dividend</b>  |                 |                              |               |
| Champarun Sugar          | June 30, 1974   | Nil                          | 15.0          |
| National Insulated Cable | March 31, 1974  | 4.0                          | 8.0           |
| Calcutta Chemical        | June 30, 1974   | 2.0                          | 10.0          |
| Carona Sahu              | April 30, 1974  | Nil                          | 5.0           |
| Walchandnagar Industries | Sept 30, 1974   | 7.7                          | 12.0          |
| Kirloskar Asea           | Sept 30, 1974   | Nil                          | 5.0           |
| Fit Tight Nuts and Bolts | Sept 30, 1974   | 12.0                         | 19.0          |
| Associated Bearing       | Dec, 31, 1974   | 9.5                          | 22.0          |

larly plant and machinery should be viewed with concern as old plant and machinery is generally imported and at times their sales will fetch more than book value. Hence, there should not normally be loss unless it is established that items became obsolete. Then also it may be enquired as to whom they were sold, whether to a company having same kind of production or to a concern under the same management. When production is below the licensed and installed capacities, the reasons why the production cannot be enhanced should be enquired.

The expenses incurred by the directors and executives of the company on their club bills, club subscriptions/fees, entertainment expenses otherwise spent not through the clubs, especially in case of those who are relatives of directors and are appointed under Section 314 of the Companies Act should also be enquired into.

Details of deposits and loans given by the company to others may be enquired into to find out the rate of interest earned and the relation of parties with the management.

Details of investments in the shares of other companies should be thoroughly probed into as in most cases these are made in the concerns under the same management/group. The rate of return and reasons for such investments, particularly when they are borrowed funds should be enquired.

If the meeting has been convened later than the prescribed period, reasons for the same should be enquired and it should also be enquired as to whether necessary permission from the Registrar of Companies has been obtained for the same and if not, why and who is responsible for the default.

During the dividend freeze period, proper explanation called for as to how the surplus funds of the company have been utilised. Demands for their productive utilisation should made.

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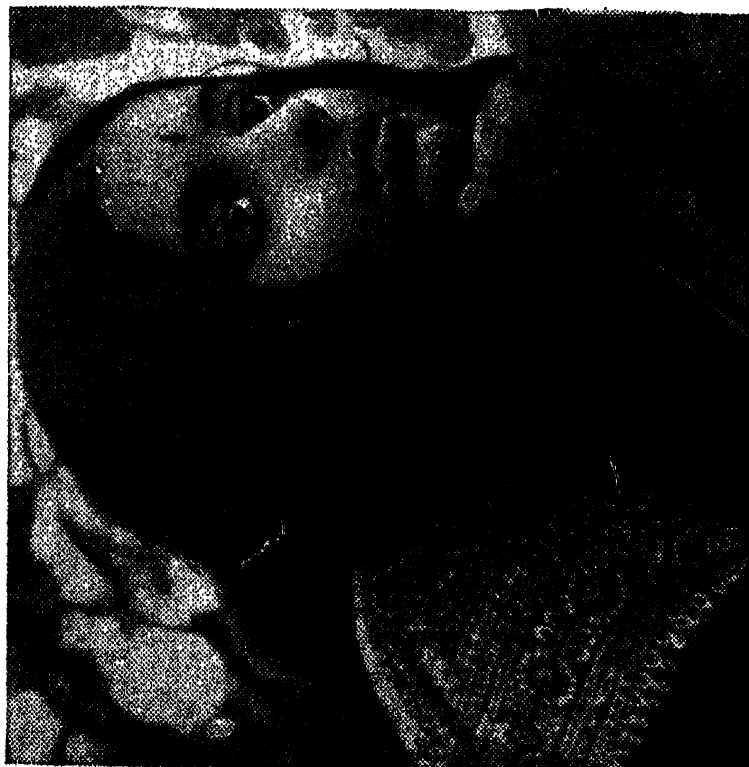


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# RECORDS AND STATISTICS

## IMF progress report on oil facility

DISCUSSIONS HAVE begun with major oil exporting countries on loans to finance the International Monetary Fund's Oil Facility in 1975. The Oil Facility was established on June 13, 1974, for a period ending December 31, 1975. It is designed to assist member countries in payments difficulties resulting from the initial impact of increased costs of oil imports. To finance the Oil Facility arrangements for 1974, the Fund borrowed the equivalent of 3.05 billion Special Drawing Rights (SDRs) from nine governments and monetary authorities, mainly of major oil exporting countries. Until end-January 1975, 34 member countries had drawn the equivalent of SDR 1.9 billion under the Oil Facility. Member countries can submit requests for purchases under the 1974 Oil Facility until February 28, 1975.

Thereafter, the Oil Facility will be continued on an enlarged basis through 1975. The Interim Committee at its recent Washington meeting concluded that a total of SDR 5 billion should be sought to finance the Oil Facility in 1975, and that any unused portion of the loans negotiated in 1974 should be available in 1975.

In view of the need to help the 33 "most seriously affected" countries, the Interim Commi-

tee agreed that the burden of interest payable by this group of countries to the Fund for their drawings under the Oil Facility should be reduced. A special account is to be established with contributions from oil exporting and industrial countries. The Fund will administer this account and make payments to the most seriously affected countries from it in order to reduce their effective interest rate by an amount calculated at about five percentage points.

The Interim Committee agreed that, subject to satisfactory amendment of the articles, the total of present quotas should be increased by 32.5 per cent and rounded up to SDR 39 billion, and that the share of the major oil exporters as a group should be doubled while the collective share of all other developing countries should not be allowed to fall below its present level.

Draft amendments of the Articles of Agreement are being prepared by the Executive Directors on the following subjects.

(i) the transformation of the Interim Committee into a permanent council which would have decision-making authority;

(ii) improvements in the general account, which would include elimination of the obligation of member countries to use gold to make such payments to the Fund as quota subscriptions and repurchases;

(iii) improvements in the characteristics of the SDR;

(iv) provision for stable but adjustable par values and the

floating of currencies in particular situations, subject to appropriate rules and surveillance of the Fund.

(v) arrangements for gold.

In this context, it was concluded in the Interim Committee that the official price for gold should be abolished and obligatory payments of gold by member countries to the Fund should be eliminated; much progress was made in moving toward a complete set of agreed amendments on gold, including the abolition of the official price and freedom for national monetary authorities to enter into gold transactions under certain safeguards.

Draft amendments on these matters together with agreed proposals for the quota increases are expected to be submitted to the Interim Committee at its next meeting in the early part of June 1975, in Paris.

As new loans are being sought from the oil exporting countries, their international reserves (foreign exchange, gold, Special Drawing Rights, and reserve positions in the Fund) have reached very high levels due to continued large receipts for oil shipments. At the end of November 1974, the reserves of these countries as a group had reached an equivalent of about SDR 36 billion as compared to SDR 12.1 billion at the end of 1973. According to the latest data in the current issue of *International Financial Statistics*, a monthly publication of the IMF, the largest reserves among the oil exporting countries were held by Saudi Arabia; they amounted to SDR 11.7 billion at the end of 1974, as compared to SDR 3.2 billion at the end of 1973.

Other major oil exporting countries with large reserves are Iran with an equivalent of SDR 6.85 billion at the end of 1974 as against SDR 1.03 billion a year earlier, Venezuela with SDR 5.33 billion against SDR 2.01 billion, Nigeria with SDR 4.6 billion against SDR 0.49 billion, the Libyan Arab

Republic with SDR 2.95 against SDR 1.76 billion, Kuwait with SDR 1.14 billion against SDR 0.42 billion, and Iraq with SDR 2.67 billion at the end of November 1974 as against SDR 1.29 billion at the end of 1973.

Some oil exporting countries, particularly those with relatively large domestic economies, are beginning to experience a slower growth of their reserves since an increasing share of their export earnings is being used to pay for a rapidly expanding inflow of imports. Algeria's reserves for example, rose from the equivalent of SDR 0.95 billion at the end of 1973 to SDR 1.67 billion at the end of the third quarter 1974, but then declined to SDR 1.38 billion at the end of the year; similarly, Indonesia's reserves went up from SDR 0.67 billion at the end of 1973 to SDR 1.7 billion at the end of October 1974 and fell subsequently to SDR 1.22 billion at year's end.

The important and increasing flow of resources from the oil exporting countries to other developing countries and to international financial institutions was recognized by the Joint Fund/Bank Development Committee which met in Washington on January 18. But anxiety was expressed that adequate financing might not become available to cover the very large aggregate current account deficits, of the order of US\$ 30 billion, in prospect for the non-oil exporting less developed countries in 1975. In 1974, their aggregate current account deficit had reached an already high level of about \$23 billion.

Total international reserves of all less developed countries including the oil exporters rose from an equivalent of SDR 37 billion at the end of 1973 to SDR 62.5 billion at the end of November 1974. After exclusion of the oil exporting countries from this group, however, a much smaller rise in reserves is shown for the remaining less developed countries — from SDR 25 billion to SDR 26.6 billion.

The industrial countries as



a group registered an increase in their international reserves from the equivalent of SDR 95.35 billion at the end of 1973 to SDR 98.19 billion at the end of 1974. The largest reserves are held by Germany, totalling SDR 26.72 billion at the end of

1974 against SDR 27.48 billion at the end of 1973, the United States with SDR 13.12 billion against SDR 11.92 billion and Japan with SDR 11.04 billion against SDR 10.15 billion.

—Courtesy: IMF

## A profile of Kandla Free Trade Zone

**Location :** On India's west coast, 9.5 km away from Kandla port, a modern major port five km. from Gandhidham port town, the Kandla Free Trade Zone (KAFTZ) is situated in a total acquired area of 284 hectares. Initially 130 hectares were developed to house the industrial units. Further expansion is well provided for.

**Transport :** Air - port : At Bhuj, 65 km distant, Proposed air-link at Kandla 14 km distant; Docks: At Kandla port, 9 km distant; Roads National highway No. 8A passes through the Zone; and Railway : A meter gauge siding connects the Zone with the railway stations. Direct link with Bombay and Delhi. Broad Gauge link with Bombay from Gandhidham, only 5 km away.

**Power Supply:** 16 Megawatts per day both in low and high tension from Gujarat Electricity Board., Kandla Thermal Station.

**Power Rates:** Rs 11 (US\$ 1.51) per KW per month above 500 KW demand charge. The average charge at 5,00,000 units per month is about Rs 16.70 paise (US \$ 0.021) per unit. Lowering of power tariff under consideration.

**Water Supply:** (Adequate supply of good grade water from the Viri High Service Reservoir of Kandla Port Trust.

**Water Rates:** (Per 1,000 litres,

40 Paise (\$0.0533) for first one lakh litres. 50 Paise (\$ 0.0666) for over one lakh and upto three lakh litres, 60 Paise (\$0.0800) for over three lakh and upto six lakh litres, 65 Paise (\$ 0.0866) for any additional quantity over six lakh litres.

**Communication:** Telephone and telegraph facilities already available. Telex to be installed shortly.

**Banking:** In addition to the commercial banks operating at Gandhidham, State Bank of India, Bank of Baroda and Dena Bank have branch units in the Zone.

**Man-Power:** Plenty of unskilled and semi-skilled labour supply. The Zone administration assists in getting technical

and managerial man - power from the state institutions.

**Wages:** Wages compare favourably with the rest of India as well as with countries like Japan, USA and other countries in Asia.

**Factory Space/Land:** Space is available for approximately 200 industrial units in KAFTZ. 16 industrial sheds having a floor area of 18×9 sq. metres with an identical open space have been developed in the Zone and construction of about 16 sheds is underway. 185 plots ranging from 1650 sq. mtrs. to 52,000 sq. mtrs and allotted on 30 years lease for construction of a factory on payment of ground rent of 0.50 ps. per sq. mtr per annum.

**A Package of Additional Concessions:**

(1) There is no restriction on the line of manufacture so long as it is 100 per cent export oriented and is not reserved exclusively for public sector, items banned in the rest of the country can also be imported with a few exceptions.

(2) Duty free import of capi-

tal goods and equipment from preferred sources.

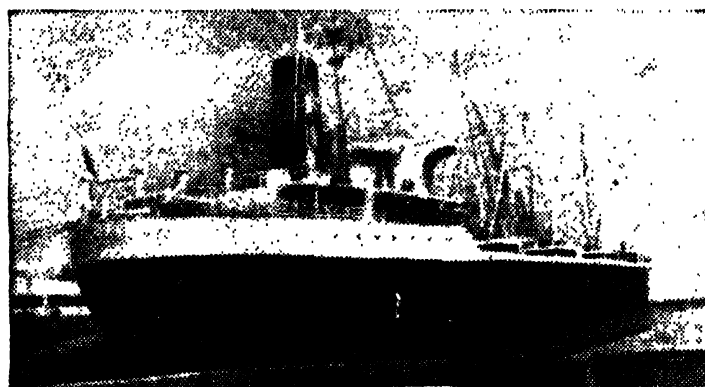
(3) Import licences granted to meet the raw material requirements for buffer stock upto 12 months.

(4) Exemption from customs and additional (counter-vailing) duty on consumable, raw materials, components, spares, tooling and packaging materials imported.

(5) Exemption from Central Excise Duties and other levies on products manufactured within the Zone.

(6) Exemption from Central Excise Duties of specified excisable indigenous raw materials brought into the Zone.

(7) Capital goods, equipment, raw materials, components, spare, tooling and packaging materials supplied to the Zone from the rest of the country are likely to be treated as exports and will be eligible for all the concessions such as cash assistance, duty drawbacks etc., as are available to



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units in the Domestic Tariff Area exporting out of India.

(8) Transport Subsidy equal to one per cent of the f.o.b. value of exports.

(9) Finance at a concessional rate available from Gujarat State Financial Corporation, Gujarat Industrial Investment Corporation etc.

(10) Raw materials, machinery, components, packaging materials etc., brought into the Zone are exempted from levy of tax under the Gujarat Sales Tax Act.

(11) On merits, special facilities of blanket permits of foreign exchange for visits abroad for export promotion without any condition of export performance.

(12) Being away from the municipal limits no municipal taxes and no octroi duty.

In short, a number of benefits accrue by locating industry in KAFIZ: lowest rent in the country, lower wage levels, cheaper production, a favourable import policy, an unfailing supply of power and water, and highly skilled and capable man-power. KAFIZ also helps in developing export markets and locating ancillary units outside the Zone.

#### Foreign Investment

(i) Non-residents of Indian origin or otherwise will be permitted to make investments in any form or organisation that they like. They will be free to make investments in Indian Joint Stock Companies, partner ships or proprietorships. KAFIZ is free from the restrictions on investments in partnerships and proprietorships etc., applicable elsewhere in the country.

(ii) Whilst 100 per cent foreign companies and their subsidiaries or joint ventures involving foreign equity are not ruled out in the Zone, it is expected that this will be for items where technological skills and marketing capabilities which these units possess are only needed. Such proposals for 100 per cent foreign ownership units or joint ventures involving majority equity will have to be considered on a case by case basis.

(iii) Investment in purely trading commercial activities will be permitted in KAFIZ. The provision under which foreign investment is not allowed in certain types of industries where foreign technical know-how and capital are not considered essential will not apply. Thus, there will be no bar in setting up an industry on the ground that foreign technical know-how and capital are not essential for the purpose.

(iv) There is no stipulation that the non-resident entrepreneurs should progressively associate resident Indian participation.

(v) Capital investment in the government approved projects, as in the case of units in KAFIZ, may be repatriated at any time to the extent of original investment. Any part of the profits derived from investments and ploughed back into projects with the approval of the government will be treated as investment for the purpose of permitting repatriation.

(vi) There are no restrictions on remittance of profits or dividends earned by foreign investors from their investments in India. The remittance is, of course, allowed only after deduction of tax due. There are, however, certain restrictions on 100 per cent foreign owned companies in regard to drawal from reserves to declare dividends. In such cases

Reserve Bank of India should be satisfied:

(1) that the reserves have been drawn upon only for maintaining the dividend quantum on the average of previous five years or 10 per cent of the paid up capital, which ever is more;

(2) that the drawal on reserves does not exceed 10 per cent of the total of the paid up capital and free reserves of the company at the beginning of the year; and

(3) that the balance of free reserve left after the drawal does not fall below 15 per cent of the total of paid up capital and reserves as in (2) above.

(vii) Foreign exchange holdings will be permitted to be brought into KAFIZ. Each applicant will have to maintain a separate non-resident account in respect of his operations in KAFIZ.

(viii) Plant and machinery needed for setting up converting or manufacturing facilities for exports will be permitted freely and Customs Clearance Permits issued for import of the same against applicant's own foreign exchange without requiring any clearance from the Directorate General of Technical Development. Clearance from indigenous availability angle will, however, be necessary while considering applications for import licences (as distinct from CCP)

for capital goods, where the party is unable to provide foreign exchange from his own sources.

(x) If the type of industry is such that India is a net importer of the manufactured products, the parties may be permitted to sell such goods in India against valid general currency area import licence.

**Custom Clearance:** A streamlined procedure has been adopted for clearing goods imported into or exported out of KAFIZ.

**Imports and Exports:** For quick clearance of import licences there is an office of Controller of Imports & Exports located in the Zone. A representative of Export Inspection Agency is also in the Zone to assist in statutory export inspection formalities.

**Disposal of Sub-standard Goods, Scrap and Waste:** Products manufactured in KAFIZ meant exclusively for export will not be allowed entry into the home market, but substandard scrap/waste etc., emanating from the KAFIZ units will be permitted to be taken out to the Domestic Tariff Area on certain conditions, on payment of appropriate duty.

**Construction:** The Development Commission and the KAFIZ administration will render all assistance in the form of getting clearance of cement, steel, etc., to the units for construction in the Zone.

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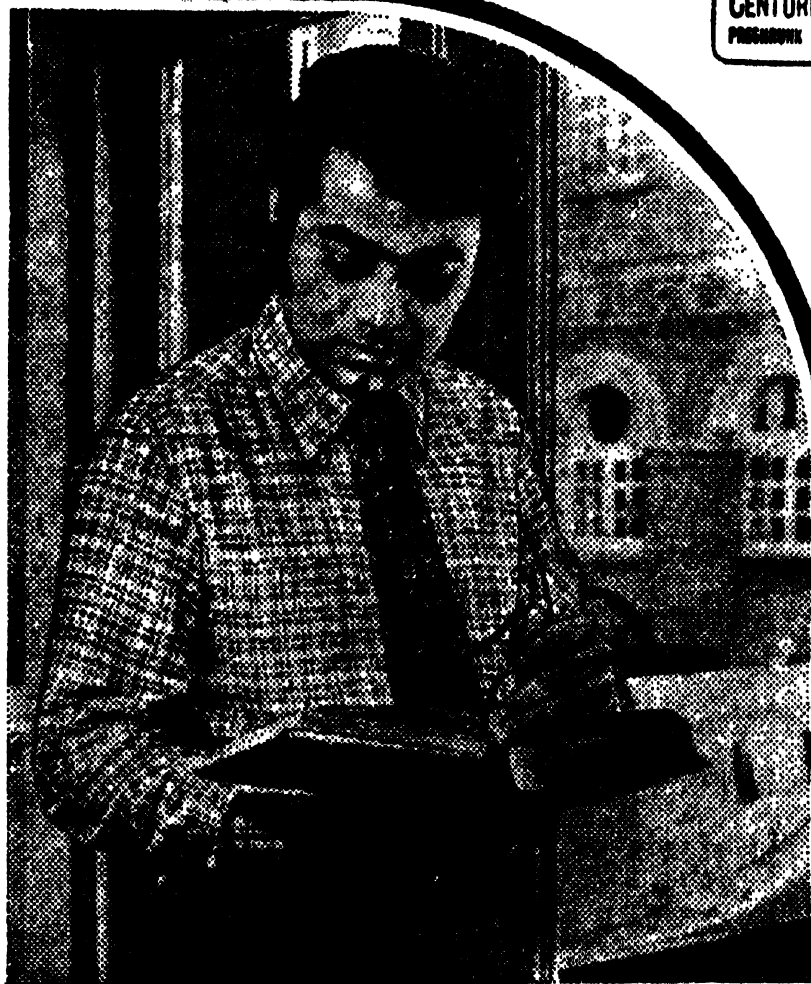
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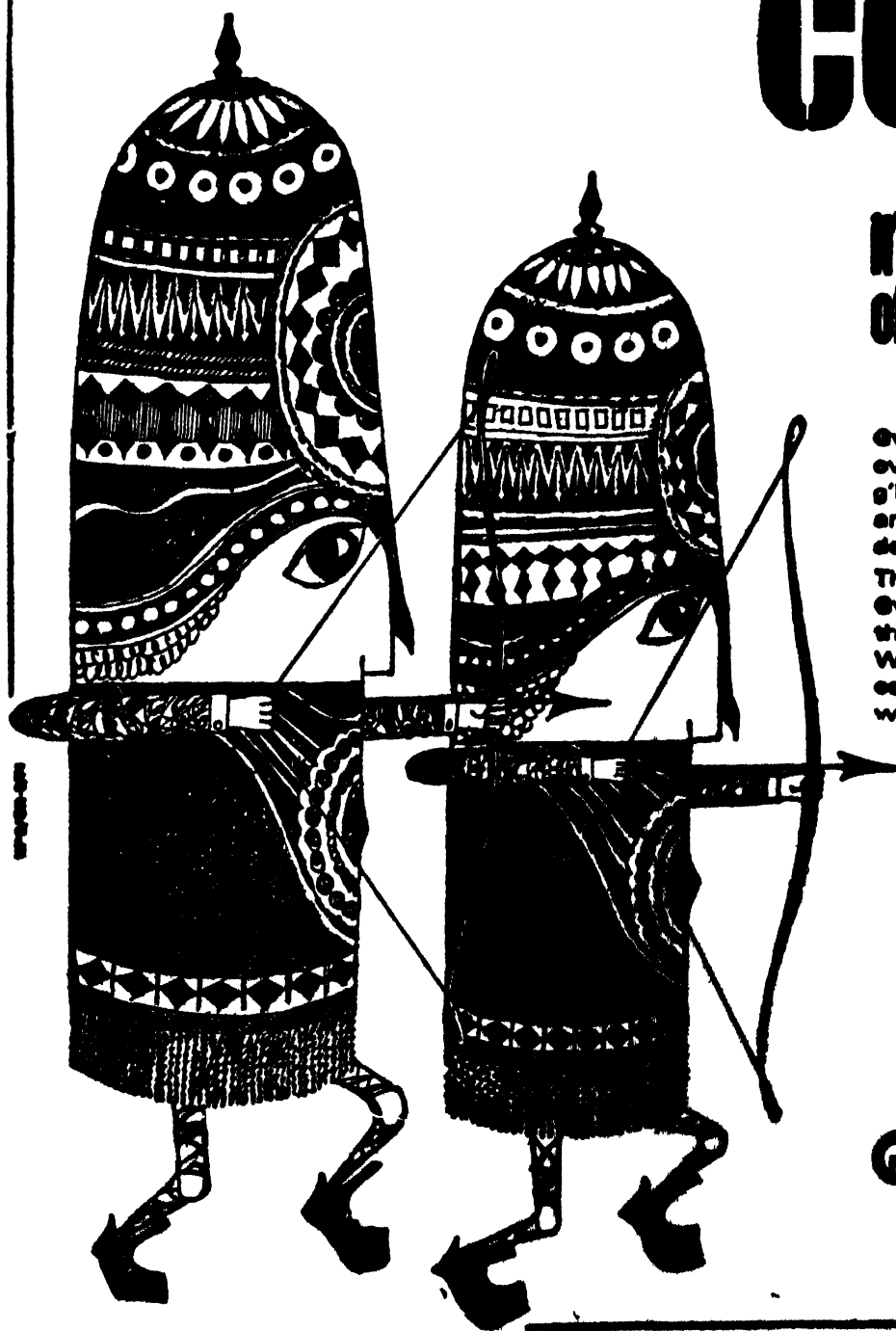
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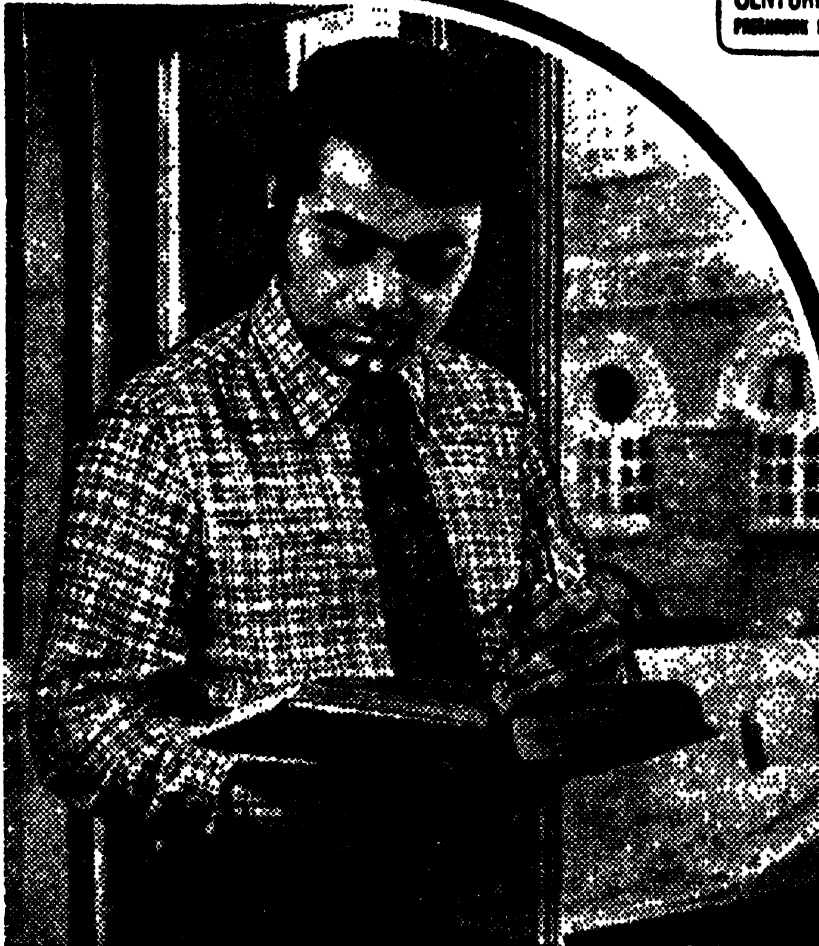
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|------------------------------------------------------|-----|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|---------|
| (xviii) U.K. India (Bhopal) Credit, 1964             | ... | ...   | ...   | ...   | ...   | ...   | 25    | 25    | 25    | 25      | 25      | 25      |
| (xix) First Five Year Plan Credit, 1964              | ... | ...   | ...   | ...   | ...   | ...   | 49    | 49    | 49    | 49      | 49      | 49      |
| (xx) 2nd General Credit, 1964                        | ... | ...   | ...   | ...   | ...   | ...   | 97    | 97    | 97    | 97      | 97      | 97      |
| (xxi) 2nd Bhopal Credit, 1964                        | ... | ...   | ...   | ...   | ...   | ...   | 10    | 20    | 19    | 19      | 19      | 19      |
| (xxii) 2nd Five Year Plan Credit, 1964               | ... | ...   | ...   | ...   | ...   | ...   | 7     | 14    | 14    | 14      | 14      | 14      |
| (xxiii) 3rd Five Year Plan Credit, 1964              | ... | ...   | ...   | ...   | ...   | ...   | 8     | 14    | 15    | 15      | 15      | 15      |
| (xxiv) 4th Five Year Plan Credit, 1964               | ... | ...   | ...   | ...   | ...   | ...   | 5     | 11    | 10    | 10      | 10      | 10      |
| (xxv) 5th Five Year Plan Credit, 1964                | ... | ...   | ...   | ...   | ...   | ...   | 6     | 11    | 12    | 12      | 12      | 12      |
| (xxvi) 6th Five Year Plan Credit, 1964               | ... | ...   | ...   | ...   | ...   | ...   | 16    | 32    | 32    | 32      | 32      | 32      |
| (xxvii) Third U.K. General Credit, 1964 (Kipping II) | ... | ...   | ...   | ...   | ...   | ...   | 19    | 39    | 39    | 39      | 39      | 39      |
| (xxviii) U.K. General Credit, 1965                   | ... | ...   | ...   | ...   | ...   | ...   | 24    | 49    | 49    | 48      | 48      | 49      |
| (xxix) U.K. Five Year Plan Credit, 1965              | ... | ...   | ...   | ...   | ...   | ...   | 2     | 4     | 5     | 5       | 5       | 5       |
| (xxx) 2nd U.K. General Credit, 1965                  | ... | ...   | ...   | ...   | ...   | ...   | ...   | 49    | 48    | 49      | 49      | 50      |
| (xxxi) UK General Purpose Credit, 1965               | ... | ...   | ...   | ...   | ...   | ...   | ...   | 50    | 1,00  | 1,00    | 1,00    | 1,00    |
| (xxxii) Non-Project Loan (IIrd Kipping) 1965         | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 40    | 40      | 40      | 40      |
| (xxxiii) First Bhopal Credit, 1966                   | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 24    | 48      | 48      | 48      |
| (xxxiv) Sindri Loan, 1966                            | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 1     | 2       | 2       | 2       |
| (xxxv) Non-Project Loan, 1966 (IVth Kipping)         | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 20    | 40      | 40      | 40      |
| (xxxvi) Second Bhopal Credit, 1966                   | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 15    | 30      | 30      | 30      |
| (xxxvii) General Purpose Loan, 1966                  | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 50    | 100     | 1,00    | 1,00    |
| (xxxviii) Food Emergency Loan, 1966                  | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 37    | 75      | 75      | 75      |
| (xxxix) 2nd Non-Project-Credit, 1966                 | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 1,35    | 1,35    | 1,35    |
| (xl) Non-Project-Credit, 1967                        | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 35      | 35      | 70      |
| (xli) Debt Refinancing Credit, General Purpose, 1967 | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 60      | 60      | 1,20    |
| (xlii) General Purposes (1967)                       | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...     | ...     | 1,20    |
| (xliii) General Purposes (1968)                      | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...     | ...     | 42      |
| (xliv) Debt Refinancing                              | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...     | ...     | 37      |
| (b) Lazard Brothers                                  | ... | 15,33 | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...     | ...     | ...     |
| (c) Barclays Bank                                    | ... | ...   | ...   | ...   | 57    | 57    | 57    | 58    | 57    | 57      | 57      | 57      |
|                                                      |     |       |       |       |       |       |       |       |       | 1,24(b) | 1,43(b) | 1,58(b) |
| <b>Total</b>                                         | ... | 29,25 | 68,43 | 24,27 | 16,82 | 19,82 | 21,80 | 24,15 | 29,16 | 29,35   | 32,45   |         |

—Loans from Canada :

|                                                                  |      |      |      |      |     |      |      |      |       |       |          |      |
|------------------------------------------------------------------|------|------|------|------|-----|------|------|------|-------|-------|----------|------|
| (i) Wheat Loan I                                                 | 1,64 | 6,58 | ...  | ...  | ... | ...  | ...  | ...  | ...   | ...   | ...      | ...  |
| (ii) Wheat Loan II                                               | ...  | 2,95 | ...  | ...  | ... | ...  | ...  | ...  | ...   | ...   | ...      | ...  |
| (iii) Diesel Locos for Indian Railways                           | ...  | ...  | 86   | ...  | ... | ...  | 21   | 21   | 43    | 43    | 43       | 43   |
| (iv) Indalco Expansion                                           | ...  | ...  | 29   | 11   | 11  | 11   | 11   | 11   | 11    | 11    | 11       | 11   |
| (v) Rana Pratap Sagar Hydro Electric Project                     | ...  | ...  | 36   | 36   | 36  | 36   | 36   | 36   | 36    | 36    | 36       | 36   |
| (vi) Rajasthan Atomic Power Project (Candu Atomic Power Project) | ...  | ...  | ...  | 1,04 | ... | 1,07 | 1,28 | 1,28 | 2,44  | 2,44  | 2,44     | 2,44 |
| (vii) Wind Tunnel Project                                        | ...  | ...  | ...  | ...  | 12  | 25   | 25   | 25   | 25    | 25    | 25       | 25   |
| (viii) Durgapur Alloy Steel Project (Amco Furnace)               | ...  | ...  | 4    | 8    | 8   | 8    | 8    | 8    | 8     | 8     | 8        | 8    |
| (ix) Kota Dam Hydro Electric Project                             | ...  | ...  | ...  | 12   | 25  | 25   | 25   | 25   | 25    | 25    | 25       | 25   |
| (x) Rajasthan Atomic Power Station (Phase II)                    | ...  | ...  | ...  | ...  | ... | ...  | ...  | ...  | 1,11  | 1,11  | 2,22     | 2,22 |
| (xi) Diesel Locos for Calcutta Port 1966                         | ...  | ...  | ...  | ...  | ... | ...  | ...  | ...  | 1     | ...   | ...      | 2    |
|                                                                  |      |      |      |      |     |      |      |      | (b)88 | (b)92 | 1,116(b) |      |
| <b>Total</b>                                                     | 1,64 | 9,53 | 1,55 | 1,71 | 92  | 2,12 | 2,54 | 2,54 | 5,91  | 5,95  | 7,32     |      |

—Loans from Federal Republic of Germany :

|                                                                              |      |       |       |      |      |      |      |      |      |      |      |      |
|------------------------------------------------------------------------------|------|-------|-------|------|------|------|------|------|------|------|------|------|
| (i) D.M. 660 million Rourkela Credit                                         | 5,58 | 72,06 | ...   | ...  | ...  | ...  | 1,64 | ...  | ...  | ...  | ...  | ...  |
| (ii) D.M. 168 million Credit                                                 | ...  | 2,86  | 13,64 | 1,50 | 1,64 | 1,64 | 1,64 | 1,64 | 1,64 | 1,64 | 1,64 | 1,64 |
| (iii) First D.M. 125 million Credit                                          | ...  | 1,14  | 5,00  | 1,65 | 1,72 | 1,72 | 1,72 | 1,72 | 1,72 | 1,72 | 1,72 | 1,72 |
| (iv) Second D.M. 125 million Credit                                          | ...  | ...   | 7,05  | 2,35 | 2,56 | 2,56 | 2,56 | 2,56 | 2,56 | 2,56 | 2,56 | 2,56 |
| (v) D.M. 98 36 million Credit, 1961—Rourkela Prolongation Credit (First)     | ...  | 11,71 | ...   | ...  | ...  | ...  | ...  | ...  | ...  | ...  | ...  | ...  |
| (vi) D.M. 230 million Credit, 1961—Rourkela Prolongation Credit (Second)     | ...  | 13,69 | 13,21 | 1,86 | 3,48 | 4,10 | 4,10 | 4,10 | ...  | ...  | ...  | ...  |
| (vii) D.M. 100 million Credit, 1961                                          | ...  | 90    | 6,53  | 94   | 94   | 96   | 96   | 96   | 96   | 96   | 96   | 96   |
| (viii) D.M. 85 million Credit, 1962—Rourkela Prolongation Credit (Third)     | ...  | ...   | 6,75  | 1,57 | 1,64 | 1,64 | 1,64 | 1,64 | 1,84 | 1,84 | ...  | ...  |
| (ix) D.M. 100 million Credit, 1962                                           | ...  | ...   | ...   | 1,45 | 1,52 | 1,52 | 1,52 | 1,52 | 1,52 | 1,52 | 1,52 | 1,52 |
| (x) D.M. 61 4 million Credit (for Rourkela Refinancing)                      | ...  | ...   | 2,56  | 1,34 | 1,40 | 1,40 | 1,40 | 1,40 | 1,40 | 1,40 | 1,40 | 1,39 |
| (xi) D.M. 90 million Credit, 1965                                            | ...  | 67    | 3,17  | 1,10 | 1,15 | 1,15 | 1,15 | 1,15 | 1,15 | 1,15 | 1,15 | 1,15 |
| (xii) D.M. 93 6 million Credit, 1965 (Consolidation of Rourkela Liabilities) | ...  | 35    | 3,50  | 1,15 | 1,20 | 1,20 | 1,20 | 1,20 | 1,20 | 1,20 | 1,20 | 1,20 |
| (xiii) D.M. 170 million Credit, 1963                                         | ...  | ...   | 2,25  | 2,46 | 2,46 | 2,46 | 2,46 | 2,46 | 2,46 | 2,46 | 2,46 | 2,46 |
| (xiv) D.M. 107 million Credit, 1963                                          | ...  | ...   | 2,00  | 2,10 | 2,19 | 2,19 | 2,19 | 2,19 | 2,19 | 2,19 | 2,19 | 2,19 |
| (xv) D.M. 396 million Credit, 1963                                           | ...  | ...   | 4,95  | 5,18 | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 |
| (xvi) D.M. 4 million Credit, 1963                                            | ...  | ...   | ...   | 5    | 5    | 6    | 5    | 5    | 5    | 5    | 5    | 5    |
| (xvii) D.M. 82 million Credit                                                | ...  | ...   | ...   | ...  | 65   | 1,29 | 1,29 | 1,29 | 1,29 | 1,29 | 1,29 | 1,29 |
| (xviii) D.M. 40 million Credit (Specialised Project I)                       | ...  | ...   | ...   | ...  | 15   | 30   | 40   | 51   | 51   | 51   | 51   | 51   |

\* Due to revaluation of DM from 6-3-1961, the actual amount repaid or to be repaid is more than the amount actually drawn.

(b) Exchange variations.

|                                                 | 1   | 2     | 3       | 4     | 5     | 6     | 7     | 8     | 9       | 10       | 11       | 1        |
|-------------------------------------------------|-----|-------|---------|-------|-------|-------|-------|-------|---------|----------|----------|----------|
| (xix) D.M. 40 million, 1964                     | ... | ...   | ...     | ...   | ...   | ...   | 23    | 45    | 45      | 46       | 46       | 4        |
| (xx) D.M. 28.1 million, 1964                    | ... | ...   | ...     | ...   | ...   | ...   | 4     | 9     | 9       | 9        | 9        | ...      |
| (xxi) D.M. 74 million, 1963                     | ... | ...   | ...     | ...   | ...   | ...   | 1,18  | 1,18  | 1,18    | 1,18     | 1,18     | 1,1      |
| (xxii) D.M. 6.41 million Credit, 1965           | ... | ...   | ...     | ...   | ...   | ...   | ...   | 4     | 6       | 6        | 6        | ...      |
| (xxiii) D.M. 52.16 million Credit, 1967         | ... | ...   | ...     | ...   | ...   | ...   | ...   | 18    | 18      | 61       | 61       | 6        |
| (xxiv) D.M. 58.64 million Credit, 1969          | ... | ...   | ...     | ...   | ...   | ...   | ...   | 80    | 1,60    | 1,60     | 1,60     | 1,6      |
| (xxv) D.M. 62 million Credit, 1969              | ... | ...   | ...     | ...   | ...   | ...   | ...   | 85    | 1,69    | 1,69     | 1,69     | 1,6      |
| (xxvi) D.M. 76.3 million Credit, 1970           | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 1,04    | 2,08     | 2,08     | 2,0      |
| (xxvii) D.M. 23.5 million Credit, 1965          | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 26      | 26       | 26       | ...      |
| (xxviii) D.M. 12 million Credit, 1961           | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 7       | 14       | 14       | ...      |
| (xxix) D.M. 10 million Credit, 1965             | ... | ...   | ...     | ...   | ...   | ...   | ...   | 6     | 11      | 11       | 11       | ...      |
| (xxx) D.M. 60 million Credit, 1966              | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 67      | 67       | 67       | ...      |
| (xxxi) D.M. 18 million Credit, 1966             | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 20      | 20       | 20       | ...      |
| (xxxii) D.M. 7.25 million Credit, 1966          | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 8       | 8        | 8        | ...      |
| (xxxiii) D.M. 180 million Credit, 1967 (AL-303) | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...     | 1,02     | 1,02     | 2,0      |
| (xxxiv) D.M. 289 million Credit, 1967 (AL-382)  | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...     | 1,95     | 1,95     | 1,6      |
| (xxxv) D.M. 28.25 million Credit (AL-248)       | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...     | 16       | 16       | ...      |
| (xxxvi) DM 140 million Credit 1967 (AL-379)     | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...     | ...      | ...      | 1,5      |
| (xxxvii) DM 71 million Credit 1972 (AL-681)     | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...     | ...      | ...      | 1,9      |
| (xxxviii) DM 170.4 million Credit 1968 (AL-175) | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...     | ...      | ...      | 10       |
| (l) DM 16 million Credit 1968 (AL-354)          | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...     | ...      | ...      | 5        |
|                                                 |     |       |         |       |       |       |       |       |         | (b)19,00 | 20,16(b) | 21,90(b) |
| <b>Total</b>                                    |     | 5,58  | 1,03,38 | 70,61 | 24,70 | 28,16 | 31,05 | 33,97 | 38,12   | 57,89    | 59,05    | 63,55    |
| <b>VI.—Loans from Japan :</b>                   |     |       |         |       |       |       |       |       |         |          |          |          |
| (i) First Yen Credit                            | ... | 8,21  | 2,68    | ...   | 35    | 55    | ...   | 2,01  | 2,16    | 2,16     | 2,16     | ...      |
| (ii) Second Yen Credit                          | ... | ...   | 12,09   | 3,56  | ...   | 44    | 3,88  | 8,75  | 9,54    | 9,54     | 9,74     | ...      |
| (iii) Third Yen Credit                          | ... | ...   | ...     | ...   | ...   | 14    | ...   | 6,09  | 6,64    | 6,64     | 6,77     | ...      |
| (iv) Fourth Yen Credit                          | ... | ...   | ...     | ...   | ...   | ...   | 1,37  | 4,73  | 5,12    | 5,12     | 5,16     | ...      |
| (v) Fifth Yen Credit                            | ... | ...   | ...     | ...   | 2,08  | 4,16  | ...   | 4,15  | 4,15    | 4,15     | 4,15     | ...      |
| (vi) Sixth Yen Credit                           | ... | ...   | ...     | ...   | ...   | 1,59  | ...   | 3,19  | 3,19    | 3,18     | 3,18     | ...      |
| (vii) Seventh Yen Credit                        | ... | ...   | ...     | ...   | ...   | ...   | ...   | 2,24  | 2,24    | 2,24     | 2,24     | ...      |
| (viii) Food Aid                                 | ... | ...   | ...     | ...   | ...   | ...   | ...   | 53    | 52      | 52       | 52       | ...      |
| (ix) Eighth Yen Credit                          | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 1,63    | 1,63     | 1,63     | ...      |
| (x) VOH Credit                                  | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...     | ...      | 41       | ...      |
| (xi) Ninth Yen Credit                           | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...     | ...      | 1,48     | ...      |
|                                                 |     |       |         |       |       |       |       |       |         | 14,13(b) | 10,42(b) | 11,09(b) |
| <b>Total</b>                                    | ... | 8,21  | 14,77   | 3,56  | 2,43  | 8,25  | 3,88  | 31,69 | 49,32   | 45,60    | 48,53    | ...      |
| <b>VII.—Loans from Switzerland :</b>            |     |       |         |       |       |       |       |       |         |          |          |          |
| Credit for Third Plan                           | ... | ...   | 87      | 1,72  | 2,54  | 2,91  | 3,01  | 3,01  | 2,94    | 2,94     | 2,86     | ...      |
|                                                 |     |       |         |       |       |       |       |       | (b)1,16 | 1,46(b)  | (b)1,50  | ...      |
| (i) First Credit for Third Plan                 | ... | ...   | 4,16    | 2,98  | 3,84  | 4,11  | 4,12  | 4,15  | 3,56    | 3,56     | 3,40     | ...      |
| (ii) Second Credit for Third Plan               | ... | ...   | 1,77    | 2,01  | 3,32  | 3,41  | 3,65  | 3,81  | 4,66    | 3,98     | 3,95     | ...      |
| <b>Total</b>                                    | ... | ...   | 5,93    | 4,99  | 7,16  | 7,52  | 7,77  | 7,96  | 8,22    | 7,54     | 7,35     | ...      |
| <b>IX.—Loans from Yugoslavia :</b>              |     |       |         |       |       |       |       |       |         |          |          |          |
| (i) First Credit                                | ... | 17    | 5,17    | 3,46  | 3,63  | 3,14  | 2,68  | 1,98  | 1,91    | 1,91     | 3,28     | ...      |
| (ii) Second Credit                              | ... | ...   | ...     | ...   | 1     | 1     | 1     | 1     | 1       | 1        | 1        | ...      |
| <b>Total</b>                                    | ... | 17    | 5,17    | 3,46  | 3,64  | 3,15  | 2,69  | 1,99  | 1,92    | 1,92     | 3,29     | ...      |
| <b>X.—Loans from Poland :</b>                   |     |       |         |       |       |       |       |       |         |          |          |          |
| (i) First Credit                                | ... | 11    | 4,59    | 1,90  | 2,38  | 2,59  | 2,59  | 2,41  | 1,54    | 1,49     | 79       | ...      |
| (ii) Second Credit                              | ... | ...   | ...     | ...   | 10    | 10    | 23    | 23    | 24      | 23       | 35       | ...      |
| (iii) Third Credit                              | ... | ...   | ...     | ...   | ...   | ...   | ...   | 38    | 77      | 113      | 75       | ...      |
| <b>Total</b>                                    | ... | 11    | 4,59    | 1,90  | 2,48  | 2,69  | 2,82  | 3,02  | 2,55    | 2,85     | 1,89     | ...      |
| <b>XI.—Loans from Austria :</b>                 |     |       |         |       |       |       |       |       |         |          |          |          |
| (i) First Credit                                | ... | 36    | 1,12    | 37    | 37    | 38    | 39    | 39    | 39      | 20       | ...      | ...      |
| (ii) Second Credit                              | ... | ...   | 72      | 29    | 29    | 30    | 30    | 30    | 30      | 30       | 30       | ...      |
| (iii) Third Credit                              | ... | ...   | ...     | 15    | 30    | 32    | 32    | 32    | 32      | 32       | 32       | ...      |
| (iv) Fourth Credit                              | ... | ...   | ...     | ...   | 15    | 32    | 32    | 32    | 32      | 31       | 32       | ...      |
| (v) Fifth Credit                                | ... | ...   | ...     | ...   | ...   | 19    | 37    | 37    | 37      | 37       | 37       | ...      |
| (vi) Sixth Credit                               | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 8       | 8        | 15       | ...      |
| (vii) Food Aid                                  | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 2       | 2        | 4        | ...      |
|                                                 |     |       |         |       |       |       |       |       | (b)69   | ...      | ...      | ...      |
| (viii) Debt Relief (1968)                       | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...     | 72(b)    | 70(b)    | ...      |
| <b>Total</b>                                    | ... | 36    | 1,84    | 81    | 1,11  | 1,51  | 1,70  | 1,70  | 2,49    | 2,32     | 2,24     | ...      |
| <b>XII.—Loan from Kuwait Government :</b>       | ... | 14,91 | 13,20   | 4,34  | 4,34  | 4,34  | 1,08  | ...   | ...     | ...      | ...      | ...      |

(b) Exchange variations.



| 1                                          | 2     | 3     | 4     | 5    | 6     | 7     | 8     | 9     | 10            | 11            | 12            |
|--------------------------------------------|-------|-------|-------|------|-------|-------|-------|-------|---------------|---------------|---------------|
| XIII.—Loan from Netherlands :              | ...   | ...   | ...   | ...  | ...   | 71    | 85    | 1,21  | 1,20<br>(b)48 | 1,21<br>50(b) | 1,77<br>85(b) |
| XIV.—Loans from Denmark :                  |       |       |       |      |       |       |       |       |               |               |               |
| (i) First Credit                           | ...   | 10    | 44    | 15   | 15    | 15    | 15    | 15    | 11            | 11            | ...           |
| (ii) Second Credit                         | ...   | ...   | ...   | ...  | 13    | 13    | 13    | 13    | 13            | 13            | 13            |
| (iii) First Food Loan                      | ...   | ...   | ...   | ...  | ...   | 20    | 20    | 20    | 20            | 20            | 20            |
| (iv) Second Food Loan                      | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | (b)15         | (b)8          | 17            |
| (v) Third Credit                           | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | 22            |
| Total                                      | ...   | 10    | 44    | 15   | 28    | 48    | 48    | 48    | 59            | 52            | 97            |
| XV.—Loan from New Zealand :                |       |       |       |      |       |       |       |       |               |               |               |
| Credit for Purchase of wool                | ...   | 7     | 31    | 9    | ...   | ...   | ...   | ...   | ...           | ...           | ...           |
| XVI.—Loan from Bahrain:                    | ...   | ...   | 4,86  | 71   | 71    | 71    | 70    | 71    | 71            | 71            | 71            |
| XVI.—Loans from France :                   |       |       |       |      |       |       |       |       | (b)3          | 3(b)          | 3(b)          |
| (i) FF 17 million French Credit 1966-67    | ...   | ...   | 80    | 96   | 1,01  | 1,10  | 1,11  | 1,28  | 1,11          | 1,12          | 1,12          |
| (ii) FF 150 million Credit, 1967-68        | ...   | ...   | ...   | 1    | 8     | 33    | 1,07  | 1,34  | 1,40          | 1,39          | 1,48          |
| (iii) FF 125 million Credit, 1968-69       | ...   | ...   | ...   | ...  | 5     | 26    | 46    | 55    | 72            | 80            | 87            |
| (iv) FF 125 million Credit, 1969-70        | ...   | ...   | ...   | ...  | ...   | 7     | 28    | 54    | 82            | 81            | 84            |
| (v) FF 130 million Credit, 1970-71         | ...   | ...   | ...   | ...  | ...   | 4     | 28    | 31    | 52            | 52            | 82            |
| (vi) FF 150 million Credit 1971-72         | ...   | ...   | ...   | ...  | ...   | ...   | 23    | 51    | 67            | 82            | 89            |
| (vii) FF 25 million Debt Relief 1968-69    | ...   | ...   | ...   | ...  | ...   | ...   | 38    | 38    | 37            | 37            | 37            |
| (viii) FF 27.7 million Debt Relief 1969-70 | ...   | ...   | ...   | ...  | ...   | ...   | ...   | 42    | 42            | 42            | 41            |
| (ix) FF 150 million Credit 1972-73         | ...   | ...   | ...   | ...  | ...   | ...   | ...   | 34    | 66            | 85            | 91            |
| (x) FF 35 million Credit 1972-73           | ...   | ...   | ...   | ...  | ...   | ...   | ...   | 1     | 2             | 1             | 2             |
| (xi) FF 56 million Credit, 1972-73         | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | 3             | 4             | 16            |
| (xii) FF 27.7 million Credit, 1970-71      | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | 41            | 41            | 41            |
| (xiii) FF 180 million Credit, 1972-73      | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | 22            | 22            | 58            |
| (xiv) FF 214 million Credit 1973-74        | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | 3             |
| (xv) FF 27.7 million Debt Relief           | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | 41            |
| Total                                      | ...   | ...   | 80    | 97   | 1,14  | 1,80  | 3,81  | 5,68  | 9,61          | 9,76          | 11,80         |
| XVIII.—Loans from Belgium :                |       |       |       |      |       |       |       |       |               |               |               |
| (i) First Credit                           | ...   | ...   | ...   | ...  | ...   | ...   | 6     | 6     | 6             | 6             | 6             |
| (ii) Second Credit                         | ...   | ...   | ...   | ...  | ...   | ...   | 13    | 13    | 12            | 13            | 13            |
| (iii) Third Credit                         | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | (b)6          | 7(b)          | 12(b)         |
| Total                                      | ...   | ...   | ...   | ...  | ...   | ...   | 19    | 19    | 24            | 26            | 41            |
| XIX.—Loan from Qatar:                      | ...   | ...   | 3,52  | 94   | 94    | 94    | 94    | 94    | 94<br>(b)4    | 94<br>5(b)    | 94<br>(b)5    |
| XX.—Loan from Italy:                       | ...   | ...   | ...   | ...  | 6     | 12    | 12    | 58    | 58<br>(b)7    | 58            | 1,43          |
| XXI.—Miscellaneous Credits:                | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | 4,92          | 3,10          | 94            |
| XXII.—Loan from Norway:                    | ...   | ...   | ...   | ...  | ...   | ...   | ...   | 17    | ...           | ...           | ...           |
| XXIII.—Loans from Sweden 1964:             | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | 17<br>5(b)    |
| INTERNATIONAL AGENCIES                     |       |       |       |      |       |       |       |       |               |               |               |
| XXII.—I.B.R.D. Loans :                     |       |       |       |      |       |       |       |       |               |               |               |
| (i) Agricultural Machinery Project Loan    | 3,43  | ...   | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | ...           |
| (ii) Railway Project Loan I                | 10,99 | 4,63  | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | ...           |
| (iii) Railway Project Loan II              | ...   | 15,36 | 5,69  | ...  | ...   | 7,56  | 3,91  | ...   | ...           | ...           | ...           |
| (iv) Railway Project Loan III              | ...   | 5,74  | 5,63  | 38   | 90    | 3,94  | 4,12  | 4,36  | 4,61          | 4,61          | 4,88          |
| (v) Railway Project Loan IV                | ...   | 3,15  | 3,61  | 1,94 | 2,05  | 2,24  | 2,32  | 2,45  | 2,60          | 2,60          | 2,76          |
| (vi) Railway Project Loan V                | ...   | 3,13  | 6,29  | 2,58 | 2,73  | 2,89  | 3,06  | 3,24  | 3,43          | 3,43          | 3,63          |
| (vii) Railway Project Loan VI              | ...   | 1,30  | 3,87  | 1,74 | 1,84  | 1,72  | 2,06  | 2,18  | 2,31          | 2,31          | 2,45          |
| (viii) D.V.C. I                            | 2,54  | 2,60  | 2,72  | 1,04 | 53    | ...   | ...   | ...   | ...           | ...           | ...           |
| (ix) D.V.C. II                             | 75    | 95    | 35    | ...  | ...   | 46    | 46    | 48    | 51            | 51            | 53            |
| (x) D.V.C. III                             | ...   | 2,09  | 76    | ...  | ...   | 99    | 1,05  | 1,11  | 1,17          | 1,17          | 1,23          |
| (xi) Koyana Project Loan (I Stage)         | ...   | 25    | 1,05  | 28   | 54    | 59    | 61    | 64    | 67            | 67            | 71            |
| (xii) Coal Industry                        | ...   | ...   | 3,83  | 1,83 | 1,94  | 2,07  | 2,17  | 2,30  | 2,43          | 2,43          | 2,58          |
| (xiii) Power Transmission (416-IN)         | ...   | ...   | ...   | ...  | ...   | 56    | 1,05  | 1,11  | 1,17          | 1,17          | 1,23          |
| (xiv) Kothagudem II (417-IN)               | ...   | ...   | ...   | ...  | ...   | 13    | 30    | 31    | 33            | 33            | 35            |
| Total                                      | 17,71 | 39,20 | 33,80 | 9,79 | 10,53 | 23,15 | 21,11 | 18,18 | 20,90         | 20,63         | 22,00         |

NOTE.—Figures shown under Columns 2 to 4 of the statement are at pre-devaluation rates of exchange.

(b) Exchange variations.

| 1                                  | 2     | 3       | 4       | 5       | 6       | 7       | 8       | 9        | 10      | 11      | 12      |
|------------------------------------|-------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|
| <b>XXIII.—J.D.A. :</b>             |       |         |         |         |         |         |         |          |         |         |         |
| (i) Roads Project                  | ...   | ...     | ...     | ...     | ...     | 45      | 48      | 54       | 54      | 54      | 54      |
| (ii) U.P. Tubewell Project         | ...   | ...     | ...     | ...     | ...     | 2       | 5       | 5        | 5       | 5       | 5       |
| (iii) Shetrunji Irrigation         | ...   | ...     | ...     | ...     | ...     | ...     | 3       | 3        | 3       | 3       | 3       |
| (iv) Salandi Irrigation            | ...   | ...     | ...     | ...     | ...     | ...     | 6       | 6        | 7       | 7       | 7       |
| (v) Punjab Drainage                | ...   | ...     | ...     | ...     | ...     | ...     | 8       | 9        | 8       | 9       | 9       |
| (vi) D.V.C. IV                     | ...   | ...     | ...     | ...     | ...     | ...     | 13      | 15       | 15      | 15      | 15      |
| (vii) Sone Irrigation              | ...   | ...     | ...     | ...     | ...     | ...     | 6       | 14       | 14      | 14      | 14      |
| (viii) Purna Irrigation            | ...   | ...     | ...     | ...     | ...     | ...     | 5       | 12       | 12      | 12      | 12      |
| (ix) Koyna Project (IInd Stage)    | ...   | ...     | ...     | ...     | ...     | ...     | 7       | 16       | 16      | 16      | 16      |
| (x) Bombay Port Trust              | ...   | ...     | ...     | ...     | ...     | ...     | 6       | 13       | 14      | 13      | 14      |
| (xi) P & T (Telecommunications)    | ...   | ...     | ...     | ...     | ...     | ...     | 17      | 38       | 38      | 38      | 38      |
| (xii) Railway Project VII          | ...   | ...     | ...     | ...     | ...     | ...     | ...     | 58       | 58      | 61      | 61      |
| (xiii) Kothagudem Power Project    | ...   | ...     | ...     | ...     | ...     | ...     | ...     | 9        | 18      | 18      | 18      |
| (xiv) Industrial Imports 52-IN     | ...   | ...     | ...     | ...     | ...     | ...     | ...     | ...      | 41      | 41      | 81      |
| (xv) II Telecommunication Project  | ...   | ...     | ...     | ...     | ...     | ...     | ...     | ...      | 15      | 15      | 30      |
| (xvi) VIII Railway Project         | ...   | ...     | ...     | ...     | ...     | ...     | ...     | ...      | 56      | 56      | 56      |
| (xvii) II Industrial Imports 78 IN | ...   | ...     | ...     | ...     | ...     | ...     | ...     | ...      | ...     | ...     | 45      |
|                                    |       |         |         |         |         |         |         |          | (b)32   | (b)30   | (b)40   |
| <b>Total</b>                       | ...   | ...     | ...     | ...     | ...     | 47      | 1,24    | 2,52     | 4,06    | 4,07    | 5,18    |
| <b>Grand Total</b>                 | 48,50 | 3,08,63 | 4,66,90 | 1,74,99 | 1,90,28 | 1,91,68 | 2,22,25 | 19,52,00 | 2,97,32 | 2,93,29 | 3,15,78 |

(b) Exchange variations.

### Capital and Loans to Public Sector Undertakings

This table gives, at one place, the estimates of the capital and loans to be provided by government to financial institutions and undertakings in the public sector during the current and the next year.

(In lakhs of Rupees)

| Name of Institution                                        | Budget, 1974-75 |         |         | Revised, 1974-75 |         |         | Budget, 1975-76 |         |         |
|------------------------------------------------------------|-----------------|---------|---------|------------------|---------|---------|-----------------|---------|---------|
|                                                            | Capital         | Loan    | Total   | Capital          | Loan    | Total   | Capital         | Loan    | Total   |
| <b>FINANCIAL INSTITUTIONS</b>                              |                 |         |         |                  |         |         |                 |         |         |
| Shipping Development Fund Committee                        | ..              | 71,50   | 71,50   | ..               | 68,50   | 68,50   | ..              | 59,97   | 59,97   |
| Agricultural Refinance Corporation                         | ..              | 40,00   | 40,00   | ..               | 50,00   | 50,00   | ..              | 50,00   | 50,00   |
| National Co-operative Development Corporation              | ..              | 6,65    | 6,65    | ..               | 3,60    | 3,60    | ..              | 13,10   | 13,10   |
| Land Mortgage Banks                                        | 9,00            | ..      | 9,00    | ..               | ..      | ..      | 6,00            | ..      | 6,00    |
| Repatriates Co-operative Finance and Development Bank Ltd. | 6               | 6       | 6       | 5                | ..      | 5       | 5               | 20      | 25      |
| Newspaper Finance Corporation                              | 20              | 20      | ..      | ..               | ..      | ..      | 20              | ..      | 20      |
| Industrial Credit and Investment Corporation of India      | ..              | 21      | 21      | ..               | 21      | 21      | ..              | 21      | 21      |
| Industrial Finance Corporation                             | ..              | 1,83    | 1,83    | ..               | 21      | 21      | ..              | 27      | 27      |
| Industrial Development Bank of India                       | 50,00           | 15,00   | 65,00   | ..               | 1,50    | 1,50    | ..              | 6,00    | 6,00    |
| General Insurance Corporation                              | 6,36            | ..      | 6,36    | 6,36             | ..      | 6,36    | ..              | ..      | ..      |
| Delhi Small Industries Development Corporation             | 40              | ..      | 40      | 54               | 25      | 79      | 47              | ..      | 47      |
| <b>Total</b>                                               | 66,02           | 1,35,19 | 2,01,21 | 6,95             | 1,24,27 | 1,31,22 | 6,72            | 1,29,75 | 1,36,47 |

# Not, surely, a man for all seasons

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IN NORMAL times, that is to say, in the good old days, budgets were essentially fiscal tools of policies settled in a more general context.

In recent years, in most of the countries of the world, things had been shaping differently. The budget has in itself become now both a philosophy for economic policy-making and an engine for the implementation of policy in its broad designs as well as its fiscal details. Consequently, Finance ministers are increasingly being judged on the macro-economic approaches and attitudes of their budget concepts as much as on the micro-economic particulars of their proposals. For good or ill this is a year in which the Finance minister is required to hold himself answerable, first and foremost, to the contribution his budget for 1975-76 ought to make to the balancing of the economy at the macro-economic level.

This is so partly because his "distinguished predecessor in office", to whom Mr C. Subramaniam made a reference at the outset of his budget speech, had grievously failed to meet the macro-economic demands made on him on the occasion of the budget for 1974-75 which he presented a year ago. In the *Eastern Economist* Budget Number, last year, I described that budget as a "charter for inflation", and so it turned out to be. I wrote then that "this budget should have occupied itself with, in the first place, preventing a further expansion of money supply and, secondly, bringing about a substantial contraction of it in the course of the new financial year beginning in April." Mr Chavan, however, had other ideas or, perhaps, different priorities.

In any case, that budget proved to be an extremely short-lived misadventure although its adverse consequences were certainly not of a passing nature. By July, less than four months after the budget was passed by parliament, it had become clear that there had been a grave failure of budget strategy at the macro-economic level of keeping the economy in working order or the micro-economic or fiscal level of keeping the administration going in a financial sense. Quite possibly, it was the latter effect which forced the government to take the situation seriously. Thus came the famous anti-inflationary package of July last year in which were included a series of measures for additional taxation having the character of a supplementary budget.

During the slack season last year, in the period between April 26 and July 26, credit expansion was Rs 344 crores or 4.6 per cent as compared with Rs 117 crores or 1.9 per cent during the corresponding period of the previous year. Bank advances for purposes other than food procurement rose by Rs 284 crores as against Rs 18 crores. Food advances increased by Rs 60 crores or nearly two-thirds of that during the corresponding period of 1973. The rate of growth in commercial bank deposits was 5.6 per cent during April 26 to July 26, 1974 as against 6.1 per cent in the same period of the previous year. As of July 1974, the wholesale price index was higher by 26.1 per cent in comparison with the level a year earlier. Apart from 'industrial raw materials' which had gone up by only 9.4 per cent over the year, all other groups shared in a major way in the rise in the wholesale price index, the increase in the case of 'food articles' being 23.6 per cent, 'manufactures' 32.4 per cent and 'fuel, power, light and lubricants' 64.2 per cent.

Following the July measures, the rate of increase in the price level started decelerating. Between June 29 and July 27, 1974 the wholesale price index had gone up by three per cent, in the following month the rise was 2.3 per cent and in September it was 1.4 per cent. Even so, over the year ended September 28, 1974, the index had gone up by 30.6 per cent as against 21.6 per cent in the preceding year. 'Food articles' were up by 30.9 per cent, 'manufactures' 29 per cent and 'fuel, power, light and lubricants' 60.9 per cent. The rapid increase in the wholesale prices in the first nine months of 1974 was, as this year's Economic Survey puts it, duly re-

## eastern ECONOMIST

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flected in the retail prices. The consumer price index advanced from 248 in September 1973 to 334 in September 1974, an increase of nearly 35 per cent.

During the last quarter of 1974 indications gradually grew of the progressive accentuation of the impact of the anti-inflationary measures on the price level. The wholesale price index started falling just before October and in the five weeks ended November, it fell by about three per cent from the peak level it touched in the third week of September. In November the index remained stable and there was a marginal decline in December with the result that at the end of that month, the level of wholesale prices was about 21 per cent more than what it had been a year earlier. In January, again there was another slight fall. The consumer price index had been following a more or less similar course. The index rose by one point in October from 334 to 335 but declined by four points to 331 in the next month.

#### Falling prices

The Finance minister has described these developments as "visible signs of a downward trend in prices" and has helpfully argued that only incurable pessimism could "bar us from acknowledging with some satisfaction" this proof of abatement of inflationary pressures. He has also referred in this connection to the details of price trends for important commodities appearing in the Economic Survey. The Survey notes that the major consumption group of food articles showed a declining trend after September 1974. Food grain prices fell from October, while those of edible oils showed a downward trend from September. In the manufactures group, prices of silk and rayon fabrics were lower after June and of cotton textiles after October. The corresponding intermediate goods, namely rayon and cotton yarn, fell from July and August respectively. Another category of intermediate goods, i.e. metals, registered a declining trend, partly as a result of international factors, after August 1974. The sub-group of intermediate products as a whole showed a decline from September, while the other sub-group under manufactures,

namely, finished goods, followed suit two months later. Among industrial raw materials, raw jute prices were lower on the average in the last quarter of the year. Raw cotton prices fell precipitately in October and November and there was some decline in oilseed prices from September onwards.

#### Combating inflation

The Finance minister has held that "as a result of rigorous measures adopted by the government, we have succeeded in combating what seemed to be a runaway inflationary situation." He has claimed that, in order to achieve this purpose, "government non-developmental spending was curtailed, increase in wages and a part of additional dearness allowance had to be temporarily frozen, the increase in the rate of money supply drastically brought down and severe action taken against hoarders and smugglers." It is possible that here the Finance minister has neither stated the whole truth nor uttered only the truth. For instance, we have only his word that the government has curtailed non-developmental spending in the current financial year. This kind of plea is easier advanced than substantiated and this country has had long experience of such claims made over the years by successive Finance ministers.

The proof of the pudding is in the eating and we have had particularly disturbing evidence in the recent past of the government having completely lost control of budgetary outgoes. The original budget for the current year envisaged a deficit of Rs 126 crores. This was after the levy of new taxes expected to yield to the central government additional revenue of Rs 185 crores. In July the then Finance minister appeared before parliament with additional tax measures which were estimated to fetch the central exchequer Rs 123 crores during the remaining period of 1974-75 (Rs 210 crores in a full-year period). At that time it was stated that the government had to meet expenditures or increases in expenditure not contemplated in the main budget and that, although Plan and non-Plan expenditure was being cut by about Rs 200 crores, it was still necessary to raise

more money by taxation. It was also revealed that, even after the supplementary dose of taxation (and the amount of Rs 200 crores which was to be saved through cuts in spending), the deficit for 1974-75 was expected to be of the order of Rs 142 crores as against a deficit of Rs 126 crores projected in the earlier budget estimates.

Now Mr Subramaniam's revised estimate for 1974-75 says that the year may end with a deficit of Rs 625 crores. He desires that about Rs 330 crores should be deducted from this total "on account of payments for stocks on hand of imported food and fertilizers, which will soon be recovered." The residual deficit would be Rs 295 crores. In other words, the revised estimate of budget deficit for the current year is Rs 169 crores more than the deficit estimated at the time of the main budget and Rs 153 crores more than the deficit estimated when the supplementary budget was presented. It is not that the Finance minister cannot explain or explain away these variations. After all this is what the Finance ministry is for.

#### Unrealistic estimates

Mr Subramaniam says that the original budget estimate of deficit had gone awry because Rs 195 crores more had to be spent on food subsidy over and above the original budget provision of Rs 100 crores. Again, whereas a lump sum provision of Rs 120 crores was made initially to meet the cost of additional dearness allowance for central government employees, the draft on the budget for this purpose is now expected to be about Rs 230 crores or Rs 110 crores more than the original provision. There has also been a major departure from budget estimates in the case of Defence expenditure which has gone up by Rs 242 crores from Rs 1,915 crores to Rs 2,157 crores. The central government, again, has provided additional assistance to the states to the extent of Rs 161 crores over and above the budget estimates.

It has also had to provide additional funds of the order of Rs 126 crores to public sector undertakings, mainly for meeting increases in wages and dearness

allowance and higher cost of fuel. A further amount of Rs 190 crores was absorbed by escalation of costs on account of Plan schemes in the core sectors, such as fertilizers, power, coal, petroleum, steel, ports and paper. Finally there has been an estimated cash outgo of Rs 290 crores on account of fertilizer transactions which had not been provided for in the original budget estimates. All the upward revisions in allocations aggregated to Rs 1,304 crores. From this amount is to be deducted the sum of Rs 330 crores which Mr Subramaniam has treated as a credit item on account of recoveries due on stocks in hand of imported food and fertilizers. This leaves a balance of Rs 974 crores.

On the receipts side the revised estimates from customs at Rs 1,300 crores is Rs 364 crores more than the budget estimate. Income and corporation taxes have yielded Rs 90 crores more at Rs 1,460 crores as against the budget estimate of Rs 1,370 crores. External receipts

on account of loans have gone up by Rs 43 crores and in respect of grants by Rs 60 crores. Export of sugar on government account has yielded Rs 125 crores. All these additional accruals over and above the original budget estimates add up to Rs 682 crores. If, as was proposed at the time of the supplementary budget, the government had really effected a saving of Rs 200 crores on Plan or non-Plan spending, this amount could and should be added to the sum of Rs 682 crores and the resulting total of Rs 882 crores has to be related to the amount of Rs 974 crores earlier arrived at as the total of additional outgoes after taking credit for the value of stocks on hand of imported food and fertilizers. On this reckoning the net deficit should have been only Rs 92 crores whereas it is now Rs 295 crores. In other words, it is larger by Rs 203 crores which, incidentally, is equivalent to the extent of the saving which the government said in July last year that it had decided upon.

There is thus *prima facie* ground for

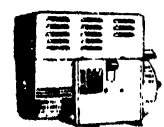
holding that Mr Subramaniam's assertion that the government has curtailed non-development spending in the course of combating "what seemed to be a run-away inflationary situation" demands more evidence in its support than is given in the budget speech or is readily available from other budget papers.

It could therefore, be concluded, at this stage, that, had the government really imposed on itself some part of the austerity which it so enthusiastically prescribed for the public and the business community in July last year, it would now have been in a better position than it actually is to claim that its own conduct had been as much in the public interest as it needed to be during a period when the country was going through a grave economic crisis, industry and commerce was being squeezed for working funds or investible resources and all sections of the community including those commonly classified as vulnerable were being required to pay more and

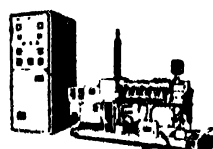
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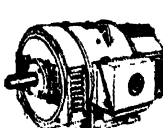
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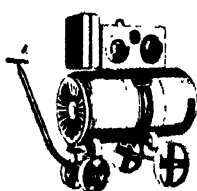
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There is also another way of looking at the budget figures of receipts and outgoes in 1974-75. The total tax revenue (including states' share) has gone up by Rs 630 crores from the budget estimate of Rs 5,498 crores to the revised estimate of Rs 6,128 crores. In the supplementary budget, the additional tax revenue (including states' share) during the remaining period of the current financial year was estimated at Rs 136 crores. This means that there has been an under-estimation of revenue to the extent of Rs 494 crores and this is in spite of the fact that the government has had an opportunity to review the original budget estimates in July last year when the supplementary budget was processed. It is indeed surprising that the revenue estimate should have gone particularly haywire in the case of receipts from customs, an area where import planning and export programming by the authorities are supposed to have been firmly established over a period of import controls and export regulations.

It is worth emphasising here that, even as late as in July, the government had shown an amazing readiness to ignore possibilities or dismiss probabilities in respect of foreseeable increases in expenditure. After having committed itself to a particular scheme of dearness allowance for its employees and while being fully aware that prices were hell-bent on an inflationary spree, the then Finance minister not only omitted to make reasonable provision for dearness allowance in his main budget, but, even while presenting the supplementary budget suggested that only Rs 112 crores more would be needed for the purpose over and above the lump sum provision of Rs 120 crores made earlier.

#### **Government's obligation**

The present Finance minister's budget speech reveals that the government's liability on account of dearness allowance could be confined even within this increased provision only because it was able, earlier this year, to negotiate a settlement with its employees. However, although the draft on the budget in the

current financial year could thus be limited to Rs 230 crores, the government's obligation to make payments in excess of this sum (to which its employees are entitled) has merely been deferred temporarily through the device of the employees voluntarily agreeing to have the arrears deposited in their provident fund accounts for a short period.

Similar reluctance to make realistic provision for foreseeable expenditures was also shown in the case of defence expenditure. Whereas the supplementary demands indicated an additional expenditure of Rs 75 crores over the budget provision for the Defence Services on account of rising costs and improvements in the emoluments of Defence personnel, the revised estimates show that the additional provision actually required is likely to be of the order of Rs 142 crores. Again, the allocation for food subsidy was increased through the supplementary demands from Rs 100 crores to Rs 225 crores but now the revised estimates places the requirement at Rs 295 crores. Finally, in the case of Plan expenditure for core projects the additional funds provided in the supplementary demands were about Rs 152 crores but the present Finance minister says in his budget speech that the additional funds involved would be larger, namely Rs 190 crores.

#### **Inevitable conclusion**

When all these manipulations of estimates of revenue or expenditure for the financial year 1974-75 are taken into account, it becomes difficult to resist the conclusion that, although the government had an additional opportunity in July last year to review the trends in the central finances and present a reasonably accurate picture of developments in revenue or capital accounts, it did not do so, although the stresses and strains of the national economic situation demanded of it a more truthful or precise approach to an assessment of its resources or liabilities. It cannot be denied that by the end of July 1974 the government was in a position to estimate reasonably accurately how the outlook for its finances was changing. Had it based its calculations honestly or efficiently or both on the data available to it, it would certainly not have misinformed

the public at the time of the supplementary budget that the deficit estimated earlier at Rs 126 crores was only likely to increase to Rs 268 crores and that the additional taxation proposed would therefore help to keep it at Rs 142 crores.

The point that I am trying to make is that the government was wide of the mark in July last year in its estimates of trends of revenue, expenditure or deficit and that here a large element of deliberate intent must be suspected. It is quite clear that the government and the then Finance minister did not want to take the country into their confidence even at a time when they were mounting their anti-inflationary offensive with a blare of drums.

#### **Deceiving themselves**

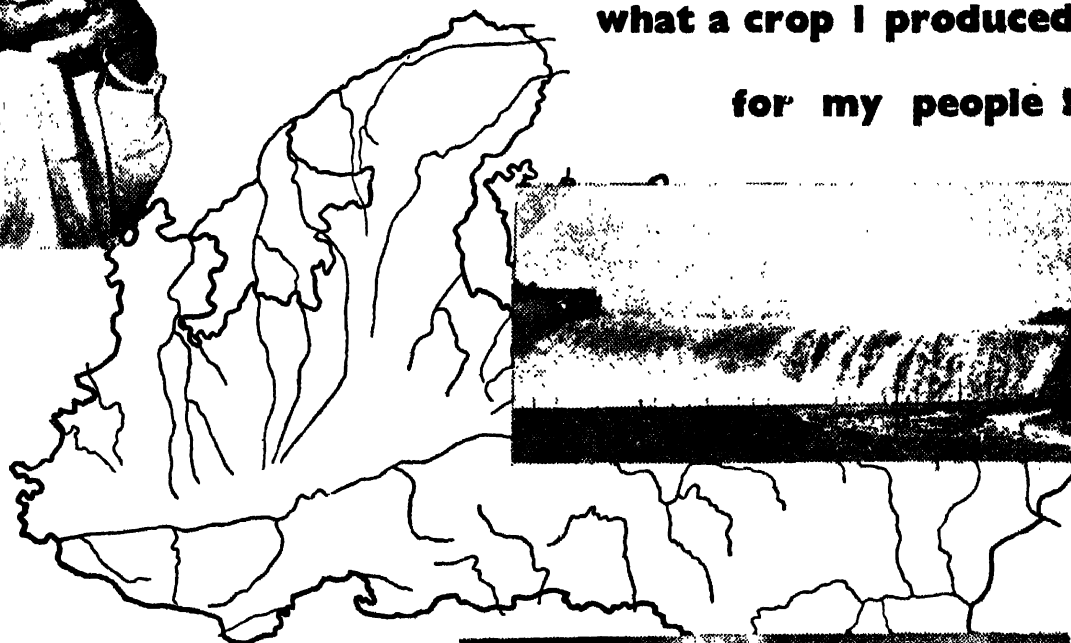
It is evident that they were not prepared to admit either to themselves or to the country the order of fiscal discipline on their own part that the situation really called for. They gave an assurance of economy in expenditure of the order of Rs 200 crores of which it is not easy to find any trace either in the budget speech of the present Finance minister or the various budget documents he presented to parliament last week. Even in the making of that promise which, apparently, was without much substance, they did not take into account adequately the full extent of the need for fiscal discipline in government as indicated by the data they should have had at the time about trends in the budgetary situation. They apparently knew in July but did not tell the public that the deficit would be much larger than what they said it was likely to be and they tried to hide from the people, if not from themselves as well, the truth that the additional taxation of the supplementary budget, substantial though it was, was quite inadequate for achieving a non-inflationary balance in central finances at the levels of government spending, whether current or prospective at the point of time.

#### **II**

It is quite clear therefore that the government's own contribution to the anti-inflationary strategy, which it had itself initiated in July last year, was less than nothing in the area of fiscal discipline. It is against this disturbing background



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that the present Finance minister's fiscal intentions and proposals for the year 1975-76 must necessarily be examined.

Take first the issue of dearness allowance. The Finance minister has indicated that the entire question of dearness allowance increases to central government employees "is to be discussed with their representatives in the next few weeks." He has rightly pointed out that, "in a country where there is considerable unemployment and underemployment, an excessive preoccupation with the current consumption of those who are fully employed erodes investible resources and seriously affects the pace at which new employment opportunities can be created to alleviate the sufferings of those who are unemployed." Mr Subramaniam has also argued, again rightly, that "an increase in monetary rewards, not justified by an increase in the country's productive capacity, accentuates inflationary pressures in the economy and may thus threaten the security currently enjoyed by those who are fully employed." Proceeding, he

has expressed the hope that "in our forthcoming discussions the dearness allowance question will be considered in this larger perspective."

The country will extend its full support to the propositions laid down by Mr Subramaniam and it would naturally share his expectation that "the dearness allowance question will be considered in this larger perspective." Nevertheless the practical problem of what view the budget estimate for the next financial year is to take at this stage of the probable liability on this account still remains. Here the minister has been more coy than candid. There are of course sound practical reasons for his not disclosing at this stage the government's negotiating position in the forthcoming talks with its employees. But this necessarily means that the budget estimates of expenditure are, to this extent, incomplete and the future alone will show what effect this will actually have on the finances of the government as they develop in the course of the budget year. In other words a question mark has to be

placed against the minister's estimates of pre-tax and post-tax deficits for 1975-76.

Mr Subramaniam has provided Rs 2,274 crores for Defence, which means an increase over the revised estimates for 1974-75 of Rs 117 crores. Here the increase on revenue account comes to Rs 84 crores and on capital account about Rs 33 crores. It is interesting to note here that, so far as capital outlay on the Defence Services is concerned, the government has indeed been holding the reins tight. Thus, for 1974-75, as against a budget provision of about Rs 260 crores for the purpose, the revised estimates indicate that only Rs 222 crores are being spent. For the new financial year the provision is about the same as in the budget estimate for the current financial year. It is however in the case of revenue expenditure on the Defence Services that the spending has been sharply upward. We had earlier referred to the experience in the current financial year. If this be any guide, some doubt could be entertained whether the provision for 1975-76

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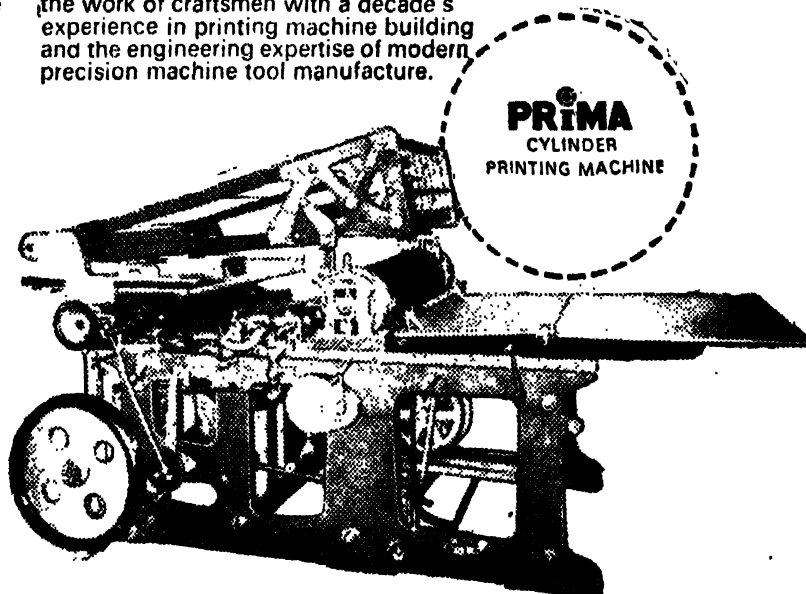
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may not be on the low side. In any case no provision is now being made for dearness allowance in the case of revenue expenditure on the Defence Services.

As for food subsidy, the budget estimate for 1975-76 is the same as the revised estimate for 1974-75, namely Rs 295 crores. The minister has disclosed that, in the coming months, he expects the public distribution system to expand by handling more grain and serving more consumers. He believes apparently that this can be done without addition to the burden of subsidy. To the extent that the availability of food grains from domestic production may improve, this assumption may have some substance. Again, international prices of food grains are tending to decline and this too could help. The benefit of the doubt may therefore be given to be Finance minister and it may be assumed for the time being that the provision for food subsidy is reasonably realistic, taking into account the government's reported reluctance to raise procurement prices.

The outgo on fertilizer transactions next year is estimated at Rs 140 crores. This compares with the estimated cash outgo on this account of about Rs 290 crores in the current financial year. The assumption here apparently is that the domestic production of fertilizers will go up, thereby reducing imports and that at the same time, world prices of fertilizers will also come down, thus making such imports as are effected less expensive. These are probabilities which may be realized although it still remains to be seen whether the Finance minister has not been too optimistic in scaling down the relevant provision by more than 50 per cent.

#### **Improved performance**

Between 1974-75 and 1975-76 non-Plan assistance to public sector undertakings has been reduced for the budget year by Rs 78 crores from the provision in the current year of Rs 217 crores. The hope here is that the performance of these undertakings may improve in 1975-76. In the case of Plan schemes the current year's experience has been that the provisions made for them in the budget estimates had been less than the

actual expenditure due to escalation in costs. The cost factor will probably continue to act in the same way and this would mean that the relevant allocation in the budget for 1975-76 may not fully cover the actual expenditure. In the circumstances the Finance minister could have been more prudent and not anticipated any reduction in non-Plan assistance to public sector undertakings so that this conservatism might result in a margin of safety for price escalations in public sector schemes as a whole. It is worth noting here that the total Plan assistance for 1975-76 will be Rs 5,960 crores or about 23 per cent over the 1974-75 Plan assistance of Rs 4,844 crores. When the size of the Plan increases, the margin of error in estimating its financial implications also tends to increase. This is one more reason why Mr Subramaniam should have provided some cushion for the budget estimates in this area.

#### **Realistic assumptions**

On the revenue side the Finance minister expects the corporation tax to yield Rs 770 crores in the budget year as against Rs 713 crores in the current financial year and income tax Rs 800 crores as against Rs 747 crores. These are projections at existing rates of taxation and they pre-suppose some gain in the level of economic activity as well as higher efficiency in tax administration and collection. These are assumptions which the Finance minister is entitled to make although it is just possible that the yield from corporation tax may be somewhat less buoyant than what Mr Subramaniam expects it to be. In respect of customs, the Finance minister has budgeted for a revenue of Rs 1,250 crores which is Rs 50 crores less than the revised estimate for the current financial year. He relates this reduction to expectations of lower imports of steel and the bunching of fertilizer imports towards the end of the current year. It may well be argued that, to be on the safe side, the minister should have estimated the probable revenue from customs a little more conservatively. It has been declared from the house-top that the balance of payments outlook is quite discouraging. It is also likely that domestic demand

for imports of capital goods and raw materials might be somewhat less next year. There is also the possibility that world prices would be lower. In these circumstances a more reasonable estimate of yield from customs would have been much nearer the Rs 1,000-crore mark.

#### **Diminishing returns**

The minister assumes that the revenue from union excise duties at existing rates of taxation would go up from about Rs 3,184 crores in the revised estimates to about Rs 3,500 crores in the budget estimates. The yield from some of the major items covered by central excise has begun showing diminishing returns. This, for instance, has been the case with tobacco. Again, the production of many excisable articles is dependent on the adequate availability of power which is still a doubtful factor in many areas of the country. The government has been talking of the intensification of the export drive and this could mean reduced domestic consumption of many important excisable items. For all these reasons the Finance minister may be erring on the side of optimism in hoping for a natural growth in excise tax revenue to the extent of Rs 316 crores during the budget year.

In his estimate of capital receipts the Finance minister has not been particularly venturesome. The net borrowing through market loans is estimated at nearly Rs 325 crores, which is Rs 170 crores less than the net borrowing as shown in the revised estimates for 1974-75. Small savings are expected to move up from Rs 325 crores to Rs 380 crores. The capital budget expects substantial support from an estimated receipt of Rs 230 crores on account of oil credits from Iran, Iraq and Abu Dhabi as against Rs 170 crores during the current year, a credit for Rs 100 crores of special borrowing from the Reserve Bank of India against the likely addition in 1975-76 to block deposits with the Bank under the schemes of compulsory deposit of additional wages, half of dearness allowance increases and percentages of income of income-tax payers and an estimated receipt of Rs 75 crores as special deposits from the employees' provident

fund (both exempted and unexempted) and other recognized provident funds. No credit is at present however being taken for food aid grants or credits from foreign countries.

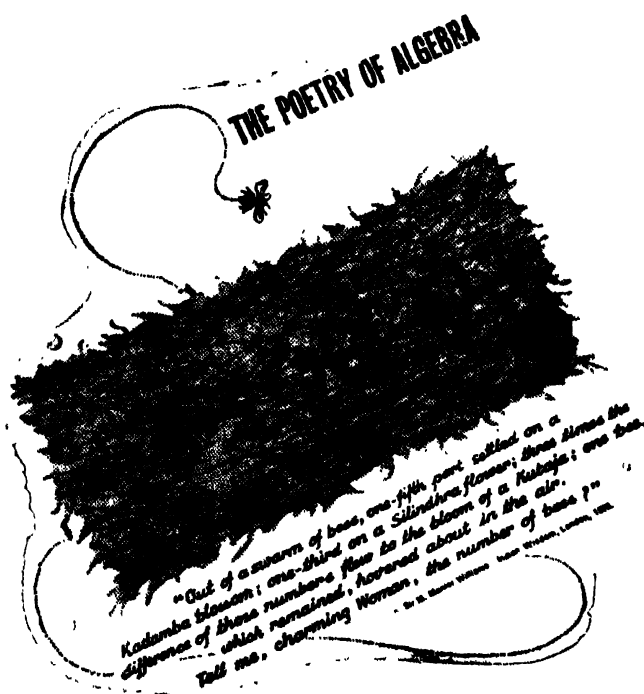
Considering all these aspects of budget estimates of revenue and expenditure, both on capital and revenue accounts, it may perhaps be said that, although there may be variations under individual heads, the estimated deficit of Rs 464 crores for the budget year at existing levels of taxation may conceal possibly an underestimate of the order of Rs 200 crores. Since the Finance minister has proposed to add Rs 239 crores to central revenues through additional taxation in the budget year, it may be suggested that the residual deficit may be larger than the figure of Rs 225 crores he has put down and that, after allowing for underestimating of the yield from new tax levies, the probable net deficit may be conceived to be of the order of Rs 380 crores.

Even according to the Finance minister

the current year is expected to close with budget deficit of Rs 295 crores of an inflationary character. As I had mentioned earlier, the government has just been making not only no fiscal contribution to its own anti-inflationary strategy but has been pursuing a fiscal course which has clearly sided with inflationary pressures. The prospects for the budget year are that this fiscal irresponsibility will continue and that an even larger budget deficit of an inflationary character is probably being written into the budget estimates for 1975-76. The Finance minister has predictably argued that the level of development expenditure provided for in the budget has been kept down as low as possible taking into consideration the opposing pulls of the constraints on budgetary resources and the basic or priority demands of investment in the further growth of the economy. This however can be no excuse for resorting to inflationary financing to any substantial extent, especially at a time when the government is committing the people and the national economy to severely

austere programmes of consumption or investment.

It was made clear earlier that there was no evidence that the government had actually secured the projected economy of Rs 200 crores in the less essential areas of its spending during the current financial year. It is quite revealing that, where the budget year is concerned, Mr Subramaiam has refrained from paying even lip sympathy to the concept of economy in less essential government expenditure as a means of providing more resources for priority expenditure with reduced resort to inflationary financing. The present budget has come after eight months of the launching of the July offensive against inflation. The people therefore have a right to demand of it that it makes a resounding contribution to fiscal discipline which is an indispensable part of any just or efficient anti-inflationary policy. Having come forward with additional taxation of a substantial order and facing prospects of capital receipts on account of foreign credits for oil, fertilizers and food, the



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Finance minister should surely have been able to balance the budget on both revenue and capital accounts after providing reasonably for priority areas of public investment in terms of prompt and effective utilization of the resources allocated. By failing to do this the Finance minister and the government are in fact insisting on the people at large and the non-government sector of the economy bearing more than its share of the burden of anti-inflationary discipline.

### Self-defeating approach

Apart from being unjust this is an approach which is likely to be self-defeating. This is because any laxity in fiscal policy has to be made good. This can of course be done to a limited extent through increased insistence on a tyrannical measure of monetary restraint. This imbalance in policy is bound to exact its price and to the extent that monetary and credit curbs are made more strict or continued longer than is unavoidable, investment and production are bound to suffer in the very large area in the economy which is outside the limited jurisdiction of government financing and which, after all, provides the base even for development in the sectors for which government may be more directly responsible. The basic message of the philosophy and structure of this budget, therefore, is that monetary policy must not only bear the brunt of the anti-inflationary exercise but can expect no help from fiscal policy. This is a prescription which the country or its production and investment sectors will certainly not be expected to accept with any degree of enthusiasm.

### III

Quite possibly, the least discouraging part of the Finance minister's performance is that, in part A of his budget speech, he has emphasized in no uncertain terms the priorities for public investments in the period ahead. The total provision in the central budget for Plan requirements is Rs 3,612 crores and the Finance minister's claim is that this is the minimum demanded even in a year of straitened resources since "our long-term objectives and urgent priorities" will have to be adequately catered for. In some of the more impressive passages in his speech he has indicated what these priorities and

objectives are. As he has phrased them, the first priority is the supply of good quality seeds of the high-yielding varieties, and for this purpose a major national seeds project for large-scale production of quality seeds has been launched. The full financial and other requirements of this programme, Mr Subramaniam has assured us, will be fully met.

Secondly, fertilizer production programmes are being pushed through, notwithstanding escalation in project costs of new units. In the third place, programmes designed to ensure optimum utilization of surface and ground water to aid agricultural production will be vigorously pursued. Command area programmes under major irrigation projects will be supported by sufficient inputs of men and materials so that the new potential is taken advantage of by farmers with the least delay and for maximum national benefit. Fourthly, special efforts are being made to organize farmers' service societies to provide credit in time, arrange for inputs and help in the processing and marketing of their produce.

### Sense of urgency

The minister has declared that "next only in importance to the agricultural sector is the energy sector". He has spoken of a new sense of urgency in respect of our efforts to increase the production of indigenous crude, build up coal production and improve the transport of coal and raise power generation and step up efficiency in the transmission of power and the maintenance of power facilities. He has claimed that an important feature of his budget is "a clear-cut indication of the extreme priorities—food and energy with the supporting facilities—and the earmarking of adequate funds for the development of these two sectors in the first instance before taking up the claims of other sectors." Consistent with this approach the budget estimates include an amount of Rs 100 crores of special advance Plan assistance to certain states, which may have gaps in resources on the basis of central assistance at the current year's level, to ensure adequate investment in important projects in the core sectors of irrigation and power.

Again, the budgetary provision for

the central plan of Rs 2558 crores marks an increase of Rs 429 crores over the corresponding revised estimate for the current year. Within this aggregate special provision has been made to step up investment in the agricultural sector substantially, from Rs 193 crores in the revised estimates to Rs 270 crores. There will be an increase of Rs 84 crores in investment in fertilizer production over the current year's level of Rs 190 crores and the Finance minister has assured us that adequate funds are being provided for major fertilizer expansion schemes in progress as well as for several new plans. A sum of Rs 900 crores is being provided for the state plans for power and a sum of Rs 140 crores for the central power sector. Once again Mr Subramaniam has emphasized that adequate provision is being made for continuing work on major projects in this area and that rural electrification is also being taken care of. The central government is stepping up investment in the coal and lignite sector and the budget accordingly provides Rs 229 crores for this purpose as compared with the revised estimate of Rs 131 crores for the current year. The budget provision for petroleum and petrochemicals has also been stepped up to Rs 170 crores in 1975-76 as against Rs 60 crores in the revised estimates for 1974-75.

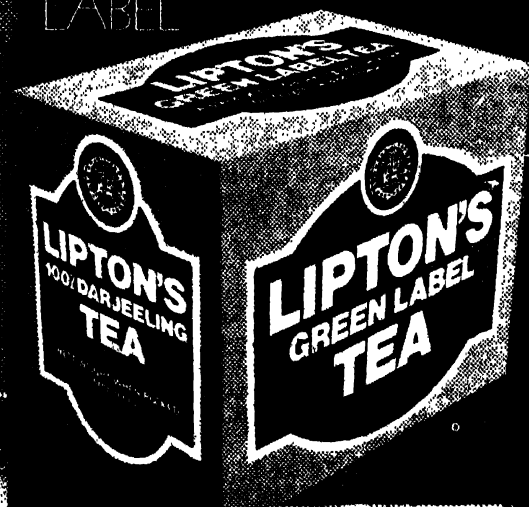
### Government's responsibility

Outside the agricultural and energy sectors, steel, aluminium, cement, paper and textiles in the public sector have also had their claims for budgetary allocations favourably treated. Earlier in his budget speech the Finance minister had underlined the government's responsibility for directly contributing to an improvement in the production and availability of essential goods such as cloth, cement and paper in the case of which demand tends to outstrip supply.

Some of the commentators on the budget documents have complained that, although the financial provisions for the priority sectors or the annual Plan as a whole have been raised in comparison with the revised estimates for the current year, there is a larger element of erosion of real resources, which are being made

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available, because of the rise in price level. Others have criticized the government for allowing the budgetary provision for urgent areas of need, such as agriculture, to go down as a percentage of the total government expenditure. In my view these objections are not as substantial as they see them. Given a certain amount of resources, the government has consciously tried to make the maximum provision possible for purposes of high importance in the immediate context of the economy. What would really matter is the centre and the state governments and the specific official agencies concerned making the most economical and effective use of the resources which are being provided. In other words, it has become more than ever important to emphasize the point that the implementation of the development projects and the efficient utilization of capital outlays, more than anything else, will determine the meaningfulness of that part of the budget rupee which is being earmarked for the further growth of the priority sectors of the economy.

Here, however, certain probabilities

of an extra-budgetary character will have to be taken into account. In the first place there has to be an upsurge of purposefulness and efficiency on the part of project authorities and developmental agencies at central and state levels. The central and state governments may hopefully expect this to be the case, but there are no objective indications that things in this respect will be very much better in the future than they had been in the past. It is true that several public sector enterprises have been performing better. This is an encouraging sign, but it is not enough to confirm our faith in a general advance of a substantial character in the efficiency and productivity of public sector investments and development expenditure in the proximate future.

Moreover, it cannot be denied that the developing political situation in the country is not particularly congenial to the central and state governments giving unremitting attention to economic development goals or programmes. It no doubt helps to have the prime minister affirming that there is not going to be any early general election. This would allow

some more months for ministers and the government machinery to attend to their normal responsibilities before switching over to the business of electioneering. Against this, however, there is the fact that the growing confrontation between the ruling party, whether at the centre or in the states and the opposition forces, both within the legislature and outside, will divert national attention and energies from tending the economy. It would therefore be only realistic to assume that, so far as the political situation or political developments are concerned, some very serious psychological and administrative bottlenecks are likely to emerge pushing the problems of the availability or sufficiency of financial resources somewhat into the background. In other words, there is a two-fold risk that neither the funds provided may be fully utilized nor those which may be actually spent would have been properly utilized.

In terms of these contingencies it would be proper for the public to reserve judgement on the real extent to which the priority given to urgent areas of

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development in the budget estimates of capital outlays or development expenditure may generate a quickening in the tempo of economic growth which the Finance minister is assuming to be the natural and necessary consequence of the scale and pattern of his budgetary allocations. Here it is also relevant to point out that, while the level of government expenditure projected in this budget—which, incidentally, has crossed the Rs 10,000-crore mark—should in a general sense be helpful to the economy in countering recessionary trends, shortfalls in government outlays of a productive nature which, as had been argued earlier, are more than probable, could only result in aggravating conditions of stagflation. This is a consideration which has got to be kept in mind by those who may be tempted to argue that even the inflationary financing of the level of spending projected in the budget is justified since this policy would stimulate economic activity and thereby fend off recessionary pressures.

#### IV

For weeks ahead of the budget there were reports in the press and the lobbies of parliament that Mr Subramaniam was heroically gearing himself to the mighty endeavour of producing a policy that would stimulate production, step up investment and promote saving, while also contributing to consolidating the anti-inflationary gains of recent months. It is therefore only to be expected that the Finance minister's actual performance on the floor of the Lok Sabha on February 28 would be assessed in terms of how far these objectives are being pursued. It is possible that so far as investment or production is concerned, Mr Subramaniam's primary argument could be that he has taken care of these purposes substantially through the pattern and priorities of his budgetary allocations or outlays. I have just discussed the merits and limitations of this claim and may now proceed to examine how his fiscal proposals relate to these macro-economic aims.

The Finance minister has indicated that he intends to introduce soon an amendment to the Restriction of Divi-

dends Act which would provide that, while dividends in excess of the various limitations laid down in the Act may not be paid, higher dividends can be declared, the deferred dividends being payable in two annual instalments, but without interest, when the present Act expires. He has expressed the hope that this measure, taken with the tax relief recently granted to investments in units, "will improve the climate for investment, particularly in respect of new issues". Judging from the course of the stock exchange up till now it could be said that the Finance minister's optimism does not appear to be shared by investment circles. It was of course expected before the budget that, since Restriction of Dividends Act had so obviously knocked the bottom out of the capital market, including the new issues market, the Finance minister would make substantial changes in its provisions so that its oppressive impact might weaken considerably. The modification proposed by him, however, has come as a case of tweedledum and tweedledee.

Quite possibly the present Finance minister did not want to go back on a measure which was introduced only seven months earlier by his predecessor. That feeling of delicacy would be readily understood, but what passes my comprehension is Mr Subramaniam's reason for believing, as he apparently does, that the change he has made can in any way help to lift the depression off the capital market.

#### Justice to shareholders

Since it is clear that he is not disposed to consider basic changes in the scheme of the Act, it is no use asking or expecting him to have radical second thoughts, but it should at least be possible for him to provide for the payment of interest on deferred dividends which he proposes to permit. This would only be bare justice to shareholders who are in effect being asked to deposit compulsorily with their companies a part of the dividends to which they become entitled.

The Finance minister has spoken of what he described as "a package of measures" for improving the investment

climate, namely, "extension of tax holiday, exemption of inter-corporate dividends derived from new companies engaged in high priority industries, exemption from wealth-tax of equity shares of new companies engaged in certain priority industries, and incentives to greater savings." He will surely admit that there is a deficiency in this package which is both conspicuous and unreasonable. It should not have been difficult for him to appreciate that the withdrawal of the development rebate has dealt a serious blow to the investment climate and that this is one of the more important reasons for the lag in investment in the priority areas of industry. Having set out to improve the investment climate, the Finance minister could surely have persuaded the cabinet to agree to the government retracing its steps in the matter of the development rebate.

#### Escalation in costs

In Part A of his budget speech Mr Subramaniam has explained that he is "conscious of the fact that in recent years there have been steep escalations in capital costs which have acted as an inhibiting factor to new investment in certain capital-intensive industries which are vital for our future growth." It was within his power to have considerably enfeebled this "inhibiting factor" by a stroke of the pen restoring the development rebate. He has however chosen to await the report of the high-level committee appointed to go into this question of the escalations in capital costs of capital-intensive industries. I am prepared to assume that this committee, constituted as it is, will make imaginative and wise recommendations. However its report may not be in the hands of the government much before June and although Mr Subramaniam assured the Lok Sabha that "when the report of this committee is received we shall quickly examine the need for suitable fiscal concessions, and new pricing policies as a means of stimulating fresh investment in these areas," the possibilities are that a greater part of the current financial year will be gone before the report is processed—as the secretariat phraseology goes—for action at decision-making levels. By

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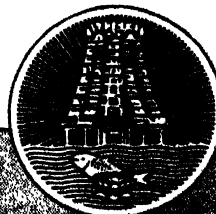
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then the government, both at the political and administrative levels, will be entering the proximate pre-election period. The likelihood therefore is that, even if constructive fiscal decisions were to be taken during the later stages of the next financial year—and this is a large assumption—they can be implemented only in the next post-election budget. This means that so far as the budget year 1975-76 is concerned, the Finance minister has virtually left the matter pending.

In the context of promoting saving the Finance minister has liberalized the existing income-tax concession available in respect of long-term savings through provident funds, life insurance, etc. While the assessee has reason to be thankful to small mercies, it has to be pointed out that the depreciation of the

value of money through inflation is so steadily eroding the worth of long-term savings under these categories that the Finance minister's gesture is more in the nature of a very small restitution than a vigorous new incentive. In any case, so far as assesseees below the super-tax level are concerned, encouraging their willingness to save will yield results only when simultaneously the ability to save is also improved. Here it is perhaps pertinent to point out that the Finance minister has chosen to leave the exemption limit for income-tax unchanged.

It was widely expected that, given the government's chronic inability to control administrative and other unproductive expenditure and its commitment to fringe programmes of dubious validity

or prestige projects of various kinds, the Finance minister would be driven to resort to substantial additional taxation in an attempt to cover some part of the inevitable deficit. It was however thought in many quarters that Mr Subramaniam would show some kind of originality even if not exactly brilliance. I myself do not know how this expectation arose. It is true of course that he is as intelligent and well-informed a human being as any the prime minister could have chosen for the Finance portfolio. But given the historic course the government's management of its finances has been following, there is really very little scope left for any Finance minister acting like some Daring Young Man on the Flying Trapeze.

The Finance minister in fact is very

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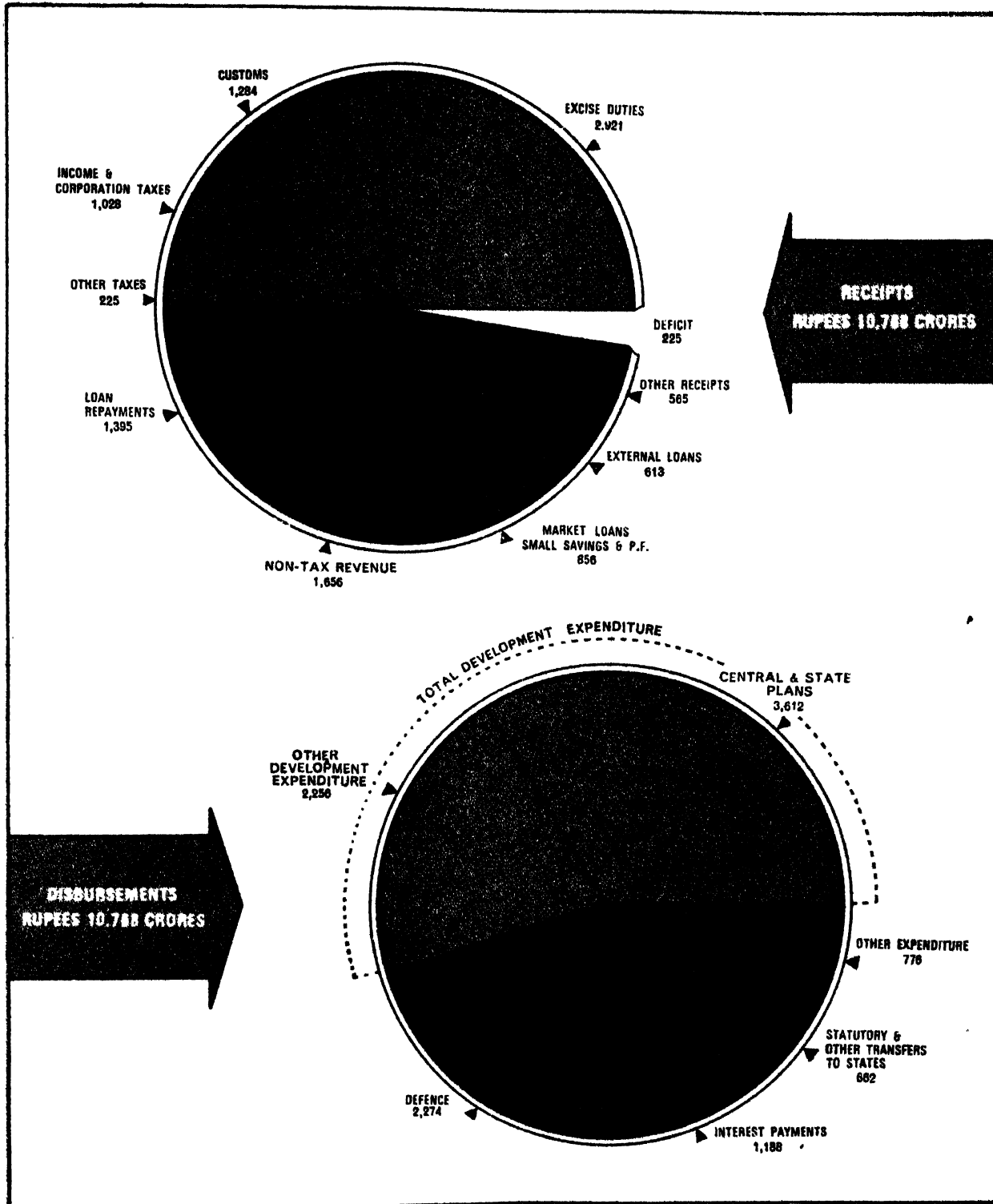
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# BUDGET : 1975-76

RUPEES CRORES



# TAXATION GROWTH AND PRICES : 1960-61 TO 1975-76

BASE : 1960-61 = 100

INDEX NUMBERS

320

300

280

260

240

220

200

180

160

140

120

100

0

INDEX NUMBERS

900

800

700

600

500

400

300

200

100

0

1960-61

1965-66

1970-71

1975-76

BUDGET

## TAX REVENUE OF THE CENTRAL GOVT.

BASE : 1960-61 = 100

WHOLESALE PRICES

INDUSTRIAL PRODUCTION  
(BASE : 1960-61 = 100)

NATIONAL INCOME  
(AT 1960-61 PRICES)

AGRICULTURAL PRODUCTION

RAILWAY FREIGHT TRAFFIC  
(TONNES ORIGINATING)

PER CAPITA INCOME  
(AT 1960-61 PRICES)

1960-61

1961-62

1962-63

1963-64

1964-65

1965-66

1966-67

1967-68

1968-69

1969-70

1970-71

1971-72

1972-73

1973-74

1974-75

ESTIMATED

much like a goat tethered to a peg driven into the ground. He can forage only so far as the rope allows. It is therefore not surprising that Mr Subramaniam has relied heavily on the excise taxation of some familiar commodities. His purpose first and last is of course to raise a couple of hundred crores of rupees more, but then no Finance minister worth his salt is supposed to confess that his fiscal purpose is so totally pedestrian. Mr Subramaniam has tried to argue that he is increasing the excise duty on sugar and cement with a view to increasing the exportable surpluses of these commodities. This of course is specious reasoning. The government has complete administrative control over the disposal of the sugar produced in the country. It can always make available some more sugar for export merely by making the necessary physical allocation especially as the export of sugar has also been canalised through the State Trading Corporation.

### Increasing production

Again, if the government desires that more sugar should be available for export, the most direct and desirable way of doing it is to increase the production of sugar. It may be conceded that several steps have been taken in this direction and there is of course nothing to stop the government from acting even more positively in the matter. Instead, the Finance minister has to increase the excise duty on free sale sugar, a move which, if anything, is not one likely to arouse the enthusiasm of the sugar industry for stepping up investment or production.

In the case of crude petroleum and petroleum products, the government seems to be bent upon exploiting the foreign exchange angle for all that it is worth. Considering the series of excise duty onslaughts, which have been taking place both before and after "the oil crisis," it is doubtful that a further rise in excise duty is called for to regulate consumption. It is of course only too clear that the rise in the duty on motor spirit would further depress the automobile and allied industries (as well as transport particularly the

taxi trade) which are not insignificant for the general economic activity in the country. The Finance minister has justified the increase in the duty on furnace oil as an inducement to industries to switch over to coal-fired equipment. If the implication is that good quality coal is available in sufficient quantities and for needed deliveries to industrial users, Mr Subramaniam is evidently looking at the coal situation through rose-tinted spectacles. In any case, since the price of nationalized coal is about to go up substantially, fuel cost for industry is liable to rise in all circumstances.

### Uneconomic price

Having found that the proportion of aluminium of electrical conductor grade in the total production of the industry has been falling in recent years, the Finance minister has concluded that the industry's unreasonable and inconvenient preference for commercial grade aluminium should be discouraged by an increase of Rs 2,000 per tonne on the excise duty on commercial grade aluminium. He claims that this measure would provide encouragement for greater production of electrical conductor grade aluminium so that there will be no shortage of this material which is required by various power systems. It is indeed most unfortunate that the Finance minister has not chosen to recognize the obvious truth that the controlled price on electrical conductor grade aluminium is uneconomic and that the increase sanctioned by the government is considered by the industry to be unreasonably low. Had the government been really in earnest about ensuring sufficient availability of this material for the power systems, it could surely have taken a more realistic view of the price issue. Moreover, the level of production of aluminium irrespective of the grade is almost wholly dependent on the industry receiving sufficient supplies of electricity.

In these circumstances the Finance minister cannot really expect that the industry will be in a better position to raise production merely because he is planning to raise his earnings by taxing its profits on commercial grade aluminium. It is within the knowledge of the

government that the industry is being required to make heavy investments in captive power generating facilities and that its internal resources have been depleted partly through rise in the cost of inputs and partly through interrupted working as a result of dislocations in the availability of electricity. It is strange indeed that, while waiting for the report of the Marathe committee on relief to capital-intensive industries faced by escalations in costs, the Finance minister should have chosen to add to the resources difficulties of an industry which is an obvious candidate for that relief.

Finance ministers seem to have an itch to go down in history as architects of new fiscal concepts. There may be exceptions but Mr Subramaniam obviously is not to be included among them. Since most Finance ministers are practical men, they are seldom themselves willing to cerebrate on the astral plane where new fiscal concepts are supposed to originate. The result is what they propose as new concepts usually are really adopted children. Thus the late T.T. Krishnamachari pulled out the expenditure tax from the Kaldorian hat. Mr Subramaniam has now trotted the Bhoothalingam recipe for general commodity taxation but after emasculating it.

### Value added tax

Mr Bhoothalingam's idea was that specific excise duties, the tribe of which kept increasing like Abou Ben Adhem, could conveniently be replaced by a general commodity taxation. The scheme of VAT operating in the European Economic Community is the kind of thing to which Mr Bhoothalingam's proposition may be said to have some family likeness. What Mr Subramaniam has called "a new concept in central excise taxation", however, is to introduce a new item in the Central Excise Tariff Schedule which, with a few exceptions, will cover all goods produced for sale or other commercial purposes not elsewhere specified in the Schedule.

Goods covered under this item will be chargeable to nominal duty at the rate of one per cent ad valorem. Mr Subramaniam has made it clear that he



has not proposed this new excise exercise as the beginning of a process of dispensing with specific excise duties. It cannot therefore be really regarded as any significant intellectual contribution to reforming or restructuring central excise taxation. It is merely an improvisation for earning a little more central excise revenue without going through the more exacting processes of identifying new items for inclusion in the excise duty coverage of specific commodities. Its immediate justification is that it is expected to yield a revenue of Rs 24 crores per annum and it may be expected that in future years what Mr Subramaniam has now described as "a nominal duty" will gradually cease to be nominal.

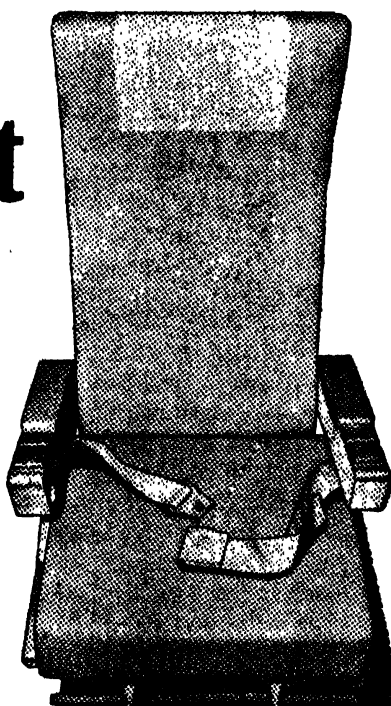
I do not propose to enter into any debate over the inflationary effects of the new excise duties. It had been our

experience in the past that increases in these duties, where essential consumer goods or other goods in wide use were concerned, had always led to permanent increases in prices which had generally tended to be more than in proportion to the increases in the duties themselves. I see no reason to expect that the developments this time are going to be different. My concern therefore is with the basic question relating to the total impact of the fiscal proposals, both direct and indirect, on the level of economic activity in the country in the coming months. I believe that the positive elements in the direct tax proposals will be of some value, but will not be sufficient to make a material difference to the saving, investment or production functions of the economy in the months ahead. As for the central excise duties, they could conceivably accentuate the

stresses and strains experienced by some of the major industries in the economy and it is possible that they would contribute to some more diminution in the worth of the consumer rupee.

The basic economic approach or policy projected in the budget is that monetary discipline or perhaps monetary regimentation is to continue in its existing severe form for some time to come while a higher level of government expenditure is to be relied upon to take care of the liquidity needs of some of the sectors of the economy to a certain extent. I wonder how many of us would subscribe to a feeling that this would prove to be a successful prescription for the twin evils of inflation and decelerating economic growth which are playing havoc with the country's economic stability or its hopes of economic progress.

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# Direct taxes : further scope for relief ?

S. P. Chopra

IMMEDIATELY AFTER independence, the tax revenue of the government of India (including the share of the states) was almost equally divided between direct and indirect taxes. This was considered to be an equitable distribution of the tax burden. But as years wore on, the percentage of direct taxes steadily decreased. In 1950-51, the share of direct taxes was 43.3 per cent, slightly less than half of the total tax revenue. Twenty-five years later, the budget for 1975-76 found the share of the direct taxes at 26.4 per cent only (see Table I). Looking at these figures, it would be unwise to jump to the conclusion that the distribution of tax burden between direct and indirect taxes had become inequitable. Since most of the indirect taxes were levied on the luxuries of life which, in general, people in the higher income groups could afford, the burden of the indirect and direct taxes in this country during the past quarter century had fallen increasingly on a small group of consumers who paid the bulk of these taxes.

## Saturation point

Even though the share of direct taxes in the total tax revenue at present was about one fourth, yet in the yield of these taxes the saturation point had been reached. In fact, because of the excessive direct tax burdens, new evils such as black money had raised their heads in the economy. Committee after committee had come to the conclusion that there was case for reduction in direct taxes and not for any further increase. As the yield from direct taxes was not as elastic as was the case with indirect taxes, this trend was likely to continue in the coming years as well.

The budget proposals for 1975-76 in respect of direct taxes clearly indicated that there was not much room for further taxation; in fact, there was need for relief. The concessions which the Finance minister thought were urgently required

would result in a net reduction of nine crores of rupees under income tax in 1975-76. The budget also levied additional taxes equivalent to Rs 10.50 crores on the corporate tax under the direct taxes; there was thus marginal additional impost of Rs 1.50 crores.

TABLE I  
Tax Revenue (including the Share  
of the States)

|                | 1950-51           | 1975-76<br>(Budget) |
|----------------|-------------------|---------------------|
| Direct taxes   | 175.23<br>(43.3)  | 1804.46<br>(26.4)   |
| Indirect taxes | 229.31<br>(56.7)  | 5034.96<br>(73.6)   |
| Total taxes    | 404.54<br>(100.0) | 6839.42<br>(100.0)  |

There was, however, genuine disappointment in some sections of society with the budget for 1975-76 as it was felt that the good work initiated by Mr Y. B. Chavan last year regarding the reduction of the highest marginal rate of taxation from 97.75 per cent to 70.00 per cent had not been carried forward. It was the Wanchoo Committee which had pleaded for a reduction in direct taxes and finding that there was merit in the way the case had been argued, Mr. Chavan had not only lowered the highest marginal rate but had also reduced the tax burden on middle and lower levels of income. Instead of providing further relief as was expected, Mr C. Subramaniam thought that the policy adopted last year needed to be given "a fair trial". Did it follow that the Finance Minister was not fully convinced of the utility of the policy pursued in the preceding year?

Much before the Wanchoo Committee report, the Bhoothlingam report had put in a fervent plea for the raising of the minimum exemption limit to Rs 7,500. The manner in which prices in general had risen within the last two years and the purchasing power of the rupee had dwindled, there was a convincing case for raising the income tax exemption to Rs 10,000 at least. The Finance minister ignored even this sound suggestion put forward by an impartial source. No wonder that salaried classes in the lower income brackets were hard put to under

the dual burden of inflation and the high incidence of income tax.

In Table II the individuals assessed to income tax in 1971-72 are listed according to the range of total income assessed. It will be seen that the number of assesses with income below Rs 7501 in 1971-72 was 8,33,212 or 44.23 per cent of the total. The income tax payable by these assesseees as at Rs 12.81 crores was 3.6 per cent of the total. If the expenditure for processing these cases were taken into account, the net loss to the exchequer by raising the exemption limit to Rs 7,500 will not be found to be significant.

In regard to long-term savings through provident funds and life insurance, the budget proposals had enhanced the quantum of concession available hitherto. Deductions in this regard will equal Rs 4,000 of the qualifying savings. Savings of the order of Rs 6,000 over and above the exemption limit of Rs 4,000 will enjoy 50 per cent tax holiday. Savings above the Rs 10,000 level will enjoy a deduction of 40 per cent only. This is indeed a great improvement over the concessions available hitherto as shown in the Table II below:

TABLE II  
Deduction in respect of Long-term  
Investment

|                | Assessment<br>year*<br>1975-76 | Assessment<br>year<br>1976-77 |
|----------------|--------------------------------|-------------------------------|
| First Rs 2,000 | 100 %                          | 100 %                         |
| Next 2,000     | 50 %                           | 100 %                         |
| Next 1,000     | 50 %                           | 50 %                          |
| Next 5,000     | 40 %                           | 50 %                          |
| Balance        | 40 %                           | 40 %                          |

\*Applicable since the assessment year 1974-75.

The above-mentioned increased deductions allowed in respect of long-term savings will however need to be seen in the context of the various other deductions which are available currently, in particular to the salaried classes. The concept of standard deduction elaborated in the last year's budget went a long way in providing relief to this group of assesseees.

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In cases where the salary exceeded Rs 10,000, the standard deduction was put at 20 per cent i.e. Rs 2,000. For salary above this level, the deduction allowed was 10 per cent with the ceiling at Rs 3,500.

This new concept of making expenditure incidental to employment as a function of the salary drawn was indeed a great relief and was instrumental in reducing the tax incidence. On top of that, the investors in the salaried classes will continue to enjoy exemption on interest and dividend receipts up to Rs 3,000. (This concession is however available to all assesseees). All these concessions may bring relief to the thrifty among the salaried groups. With the exemption limit at Rs 6,000, the standard deduction at Rs 3,500, the deduction in respect of dividends and interest at Rs 3,000 and the 100 per cent relief in long-term savings at Rs 4,000, the benefit to the savers among the salaried groups may work out to be substantial, though it may be hard to locate many assesseees who will be in a position to get full relief in respect of all

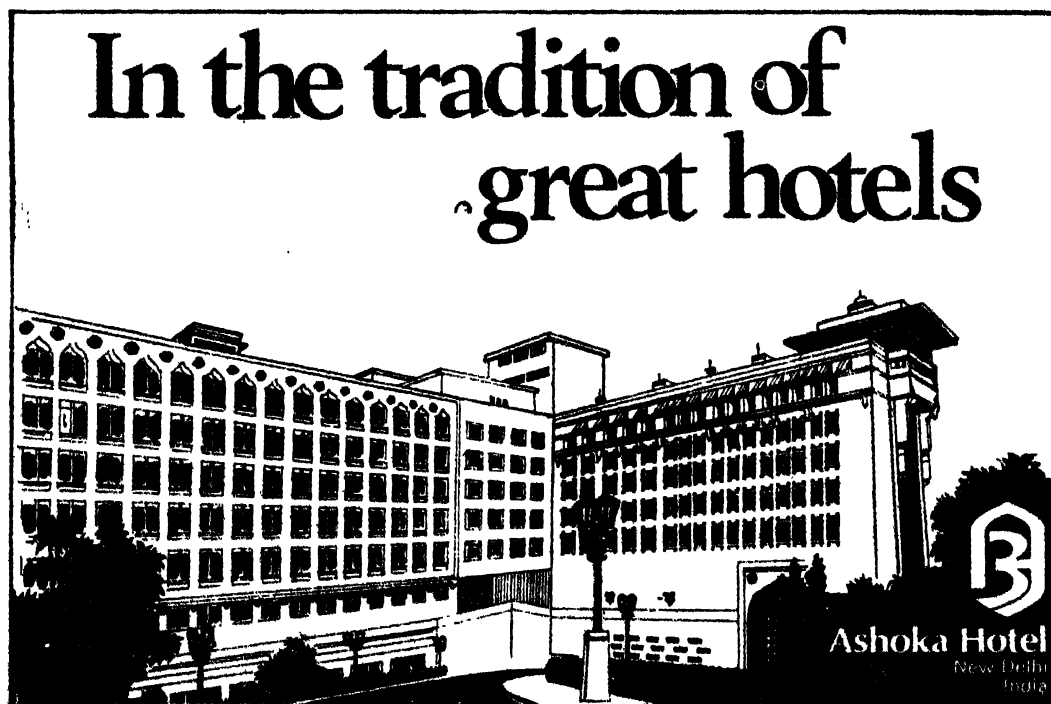
these concessions. One thing which could be safely put down about this budget was that it was saving-oriented irrespective of the fact whether the salaried classes were in a position to save or not, in view of the crippling blow given by rising prices in the past two years.

#### Development rebate

Four years ago, the then Finance minister, Mr Y. B. Chavan, had stated in his budget speech that the government would withdraw the concession of development rebate for ships acquired and plants and machinery installed after May 31, 1974. Last year, this concession was extended by a year and the development rebate was made admissible in respect of ships which were ordered before December 1, 1973 if they were acquired before June 1, 1975. Because there had been a further delay in the acquisition of ships ordered till the end of 1973, the Finance minister, Mr C. Subramaniam, had agreed to extend the date of acquisition to January 1, 1977. This was indeed a marginal concession designed to assist

the purchasers of ships. The major point to be noted was that with this, the era of development rebate in this country would come to end. The accelerated growth of priority industries was due not a little to the provision of development rebate during the past two decades. It still remains to be seen how far the replacement of the development rebate by an initial depreciation allowance of 20 per cent of the cost of machinery and plant installed in selected industries would fill the void.

The development rebate on plant and machinery was provided in 1954. It was stipulated that all plant and equipment installed after March 31, 1954 and used wholly for the purpose of taxpayer's business was entitled to this concession. The rebate was as high as 35 per cent of the actual cost in respect of plant and machinery for priority industries; the non-priority industries were entitled to only 20 per cent of the cost of plant and machinery. The percentage for ships was as high as 40. It needs to be underlined that the development rebate was permissi-



ble in addition to the normal depreciation under which full cost was deductible.

However, the enterprise enjoying the benefit of development rebate was required to set apart 75 per cent of the value of the rebate into a special reserve fund to be used for business purposes. There was also restriction on the transfer of the property enjoying the development rebate during the first 10 years in order to curb the abuse of the facility.

Whereas the development rebate entitled a unit to a tax-free recovery of an amount equal to 120-140 per cent of the cost of the asset, it also amounted to a substantial reduction in profits. However, this short-term disadvantage was considerably eclipsed by the advantage flowing from the mounting reserves built up under this head. Also, that the abolition of development rebate would result in an increase in the tax burden of the corporate sector was an undisputed fact.

#### Inconclusive evidence

The decision to do away with the development rebate was based on the recommendations of the Wanchoo and Bhoothalingam committees. While Mr Bhoothalingam was worried that the development rebate would create a tendency to use capital a little too liberally, even wastefully, the Wanchoo committee was convinced that development rebate had outlived its utility. While both these committees were in favour of scrapping the development rebate, the evidence produced by them was not conclusive. As stated by the present writer in the Budget Number of last year (page 412), this was not the time to withdraw this concession which had proven its worth in hastening the pace of industrialisation. The argument ran as follows:

"It may be stated here that development rebate in this country was introduced consequent upon the recommendation of the Taxation Enquiry Committee which had opined that the initial and additional depreciation allowances were not adequate to meet the replacement requirements of certain industries. The depreciation allowance at best replaces the original capital invested in the plant and machinery, the experience of the last two decades has shown that it is hardly adequate to replace the equipment for two reasons. First, the cost of machinery and equip-

ment continues to rise year after year. Second, the technological breakthrough in all the major sectors of industry, involves replacement of improved and modernised machinery. Both these factors tend to increase the cost of replacement several-fold for which the depreciation allowance is highly inadequate.

"The development rebate facilitated each industrial unit to build up its reserves from income generated by it and could ultimately be used to meet the replacement cost of fixed assets. It has hitherto been used not only as a corrective factor for the rise in prices of plant and machinery but also for stimulating the inflow of capital for industrial expansion. Initially it had been allowed at the flat rate of 25 per cent for all new plant and machinery but later this concession was made more liberal for priority industries. In the case of the shipping industry, it was raised to 40 per cent.

"The charge that development rebate allows wasteful use of capital has not been proved. In fact some studies made recently have demonstrated that it is neutral between techniques of different capital intensities. The truth of the matter is that this is hardly the time to withdraw this concession which has proven its worth in the past and is thought to be vitally necessary not only for the expansion of priority industries but also such traditional industries as textiles, sugar, paper and cement wherein grave shortages have already emerged with the exception of sugar.

"Again, a study of the balance sheets of 701 companies made recently by the

Reserve Bank of India has shown that gross asset formation has received stimulus in recent years due to the development rebate. It is feared that the withdrawal of development rebate would result in a fall in the rates of growth of capital and assets which would ultimately slow down the pace of expansion in industry."

#### Tax holiday

At present, the Income-tax Act provides for a tax holiday equivalent to 6 per cent per annum of the capital employed in an industrial enterprise. This amount is deducted from the profit while computing the tax incidence. This concession is available in respect of industrial undertakings going into production before April 1, 1976 and also for ships which go into operation before this date. This concession is available to all hotels irrespective of the date by which they start functioning.

Reacting sharply to this preferential treatment meted out to hotels, the Finance minister extended this benefit for another five years up to April 1, 1981, so as to cover industrial undertakings, ships and hotels. "I find no justification for giving this preferential treatment to approved hotels over industrial undertakings and ships", said the Finance minister, Mr C. Subramaniam. This was indeed a welcome gesture as it accorded equal facility to all—hotels, industrial undertakings and ships. But the Finance minister brought forth another change. While the quantum of tax holiday profits in the case of companies was raised from 6 per cent to 7.5 per cent per annum

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## *Eastern Economist 30 Years Ago*

MAR. 9, 1945

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At the present time, when the cessation of hostilities in the European theatre of war may be said to be in sight, the export trade interests in this country are naturally exercised over the immediate post-war prospects. While the war has brought in its train a measure of dislocation and loss of foreign markets, which is perhaps inevitable, there is no denying that an unimaginative export policy and a defective system of export control on the part of the government have combined to impose avoidable hardships on the trading community and hamper constructive developments. Some

small gains, no doubt, have been secured in a few directions and some of our manufactures have found a market in Australia, South Africa and the Middle East. But the permanence of even these few gains depend on the government taking up energetic steps to assist Indian industries in maintaining and developing their position in the foreign markets. It is for this reason that the Federation of Indian Chambers of Commerce and Industry have, in their recent annual session, urged the government to take up without delay such steps as may be necessary in this matter.

of the capital employed, dividends paid to shareholders out of tax holiday profits ceased to be exempt from tax as hitherto. This decision was taken largely for administrative reasons.

A school of thought in this country believed that tax incentives were not relevant to investment decisions and that other considerations such as the size and earliness of the market, availability of raw materials, skilled as well as unskilled labour, power, communications etc. exerted more influence in the setting up of an industrial unit than the tax concessions given by the government. Following this line of argument, it was very often suggested that both the tax holiday and the development rebate were of secondary importance. There was no doubt that the factors listed above had a large bearing on the location of an industrial unit at a certain place but in working out the projected profit-and-loss accounts of the undertaking, the tax incentives did play an important part. If these incentives were not there, then many an industrial unit might not have been a feasible proposition. The tax holiday which was made available for the initial five years was of considerable

use to a new enterprise which was having teething troubles. It might take time to strengthen its position in the market. The assistance provided by the government thus came in handy.

A decision to abolish the tax incentives was welcome provided the rates of taxation were lowered. Among the elements which constituted the "climate for investment", the incidence of tax was a potent factor. A lowering of the tax rate was likely to widen the tax base and result in substantial increase in economic activity leading to further inflation in tax revenue.

At the end of 1974, feverish activity by companies for mobilising deposits from the public was witnessed in all the metropolitan centres. These companies offered high interest rate ranging from 10 to 15 per cent for one to three years. Over the past few years, these companies had found these public deposits as a very handy form of finance. As the interest rates charged by the banks have been high, the companies have found it profitable to raise money from the public at comparatively cheaper rates. However, some of these companies do not have a good record in regard to honour-

ing their commitments. That is why recently a gazette notification gave details regarding the rules governing company deposits. Even within the framework of these rules, many of the leading companies will no doubt continue to mobilise funds from the public.

The Finance minister thought it advisable to raise some money by levying a tax on deposits mobilised by non-financial non-banking companies from the public. He was also keen to ensure that the monetary policy of the government was not vitiated by unrestricted growth of deposits in the non-banking sector. The budget proposals therefore provided that 15 per cent of the interest paid by non-banking, non-financial companies on deposits received from the public will not be allowed in their taxable income. There is no doubt that this is a fresh levy on deposits mobilised by banks but it is not likely to become a deterrent in obtaining deposits from the public. The companies are currently being called upon to pay by the banks as much as 15 to 17 per cent on advances while they offer anywhere between 10 to 15 per cent on deposits. Hence the fresh levy is likely to be easily absorbed by these companies.

TABLE III  
Classification of Income-tax Payable by Individuals : 1971-72

|          | Range of total income assessed<br>Rs | No of<br>assesseees | Income<br>assessed<br>Rs (000) | Income-tax<br>(including<br>super tax<br>Rs (000)) | Surcharge<br>Rs (000) | Total<br>Rs (000) |
|----------|--------------------------------------|---------------------|--------------------------------|----------------------------------------------------|-----------------------|-------------------|
|          | Below                                | 4,000               | 4902                           | 90,05                                              | 5,26                  | 5,63              |
| 4,001    | "                                    | 5,000               | 195104                         | 85,83,13                                           | 1,04,60               | 1,14,07           |
| 5,001    | "                                    | 7,500               | 633206                         | 395,95,42                                          | 10,60,70              | 11,61,07          |
| 7,501    | "                                    | 10,000              | 312097                         | 270,22,50                                          | 14,53,11              | 15,92,66          |
| 10,001   | "                                    | 12,500              | 220165                         | 245,89,96                                          | 16,75,41              | 18,42,14          |
| 12,501   | "                                    | 15,000              | 134521                         | 183,80,77                                          | 14,03,96              | 15,43,43          |
| 15,001   | "                                    | 17,500              | 88144                          | 143,46,14                                          | 12,42,58              | 13,71,11          |
| 17,501   | "                                    | 20,000              | 66639                          | 134,70,22                                          | 12,94,10              | 14,22,43          |
| 20,001   | "                                    | 25,000              | 89196                          | 198,60,71                                          | 23,04,48              | 25,47,25          |
| 25,001   | "                                    | 30,000              | 43998                          | 119,25,66                                          | 19,98,95              | 22,03,31          |
| 30,001   | "                                    | 40,000              | 44,576                         | 152,95,77                                          | 35,18,03              | 38,73,80          |
| 40,001   | "                                    | 50,000              | 19290                          | 85,62,34                                           | 24,72,33              | 27,30,37          |
| 50,001   | "                                    | 60,000              | 10641                          | 58,03,98                                           | 19,03,03              | 21,05,48          |
| 60,001   | "                                    | 70,000              | 5939                           | 38,28,15                                           | 13,93,37              | 31,35,02          |
| 70,001   | "                                    | 1,00,000            | 8340                           | 68,78,50                                           | 28,18,61              | 31,35,36          |
| 1,00,001 | "                                    | 2,00,000            | 5316                           | 71,05,18                                           | 35,15,93              | 39,55,36          |
| 2,00,001 | "                                    | 3,00,000            | 892                            | 21,51,18                                           | 11,67,44              | 13,28,19          |
| 3,00,001 | "                                    | 4,00,000            | 327                            | 11,23,34                                           | 6,59,83               | 7,62,72           |
| 4,00,001 | "                                    | 5,00,000            | 155                            | 6,86,60                                            | 3,97,90               | 4,58,67           |
|          | Over                                 | 5,00,000            | 320                            | 29,87,48                                           | 17,53,01              | 20,20,80          |
|          | Total                                |                     | 1883768                        | 2311,87,08                                         | 321,42,63             | 357,17,71         |

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# Indirect taxes : another massive dose

R.C. Ummat

IN LINE with the general practice followed by his predecessors, the union minister for Finance, Mr C. Subramaniam, in his maiden budget exercise for the central government, has taken resort to administering a fairly heavy dose of indirect taxation to the nation in preference to the direct taxation dose. Of the Rs 287.77 crores net yield expected next year from his budgetary proposals, which were presented by him to parliament on February 28, as much as Rs 284.52 crores revenue is anticipated to result from indirect taxes—customs and excise duties—and only Rs 1.5 crores from direct taxes—corporation tax, income tax, estate duty, wealth tax, gift tax and interest tax. The balance Rs 1.75 crores will accrue on account of the central sales tax meant for the states and union territories. The benefit to the union territories comes to the central exchequer as their revenue forms part of the Consolidated Fund of India. As the central sales tax too is meant to be passed on to consumers, the proposed indirect taxes, thus, should be yielding next year as much as Rs 286.27 crores out of the total revenue of Rs 287.77 crores expected from the new taxation proposals.

## Additional yield

It, however, needs to be mentioned that some of the direct taxation proposals made by Mr Subramaniam's immediate predecessor, Mr Y.B. Chavan, which were not meant to yield any additional revenue during the current financial year, would be yielding nearly Rs 14.5 crores next year. These included withdrawal of some exemptions in assessing net wealth of assesseees for the purposes of the Wealth-tax Act and stepping up of the rate of surtax from 30 to 40 per cent in respect of chargeable profits of companies exceeding 15 per cent of capital.

Even if account is taken of this fact, the position regarding an overwhelming accent on indirect taxes in next year's effort

at resources mobilisation does not alter. The net fresh taxation burden on the nation in 1975-76 will be Rs 302.27 crores—Rs 286.27 crores on account of indirect taxes and Rs 16 crores on account of direct taxes.

The greater reliance of union Finance ministers on indirect taxation in their endeavours at resources mobilisation, of course, has not been unwarranted. In a developing country such as ours, the position cannot be otherwise if mobilisation of resources has to be on a massive scale for fostering economic growth. Direct taxes have their limitations, whereas indirect taxes can yield much more wholesome results as the economy grows. In fact, there have been only a very few occasions in the second half of the 1950s and in the early 1960s when the union Finance ministers, Mr T.T. Krishnamachari and Mr Morarji Desai, administered fairly large doses of direct taxation.

## Sea-change effected

As a result of the tax efforts of the union Finance ministers since 1950-51, the pattern of yields from the various sources to the central revenues has undergone a sea-change. In 1950-51, when the total net revenue of the central government was of the order of Rs 405.86 crores, the net tax revenue amounted to Rs 357 crores and the non-tax revenue to Rs 48.86 crores. In the net tax revenue, direct taxes accounted for as much as Rs 129.51 crores and indirect taxes for Rs 227.49 crores. The share of non-tax revenue in the total net revenue of the central government then worked out to about 12 per cent and that of tax revenue to approximately 88 per cent. Direct taxes accounted for nearly 36.3 per cent of the net tax revenue and indirect taxes for the remainder 63.7 per cent.

By 1955-56, the share of non-tax revenue in the net receipts of the central government improved to approximately 13.7 per cent. Taxes, thus, contributed nearly 86.3 per cent of the total net revenue. The share of direct taxes in the net tax receipts dwindled to 27.5 per cent and that of indirect taxes grew to 72.5 per cent. The total net revenue had grown by that year to Rs 481.19 crores. The non-

tax sources yielded Rs 69.72 crores and taxation Rs 411.47 crores. The yield from indirect taxes was Rs 295.69 crores and that from direct taxes Rs 115.78 crores.

By 1960-61, the total net revenue of the centre had grown to Rs 877.46 crores. The contribution of non-tax sources to this was Rs 147.32 crores—approximately 16.8 per cent—and that of taxation Rs 730.4 crores—83.2 per cent. The share of indirect taxes in the net tax revenue was nearly 72 per cent and that of direct taxes approximately 28 per cent. As mentioned earlier, Mr T. T. Krishnamachari had made shortly after 1955-56 a major effort at putting up direct taxes. This was the reason for a slight improvement in percentage terms in the contribution of direct taxes to the net tax revenue towards the close of the 1960s.

The five years to 1965-66 saw some further improvement in the share of non-tax revenue in the total net revenue. Out of the total net revenue—Rs 2,320.39 crores—in 1965-66, non-tax revenue accounted for Rs 535.77 crores—slightly over 23 per cent. The net tax revenue in that year aggregated to Rs 1,784.62 crores. It was shared by the direct and indirect taxes in the ratio of 26.6 and 73.4 per cent. Thus, the indirect taxes again started yielding a higher percentage of the net tax revenue than the direct taxes, even though Mr Morarji Desai made a strenuous effort after the Chinese aggression to step up direct taxes.

## Increased contribution

The next five years to 1970-71 saw some further growth in the yield of non-tax sources to the total net revenue—to 26.5 per cent. The share of net tax revenue in the total net revenue declined to 73.5 per cent. The contribution of direct taxes to the net tax revenue during this period fell to just about 21 per cent. The indirect tax started yielding nearly 79 per cent of the net revenue. The total net revenue of the central government in 1970-71 was 3,341.86 crores—contributed to the tune of Rs 890.50 crores by non-tax sources and to the extent of Rs 2,451.36 crores by taxation. Direct taxes yielded Rs 511.46 crores and indirect tax Rs 1,939.9 crores.

Next year's estimates reveal that although there will be a significant improvement in the contribution of the non-tax sources to the total net revenue of the centre, its relative importance will go down. The non-tax sources will yield Rs 1,656.45 crores out of the total of Rs 7,114.01 crores—23.3 per cent. The contributions by direct and indirect tax—Rs 1,150.05 crores and Rs 2,920.76 crores—to the net tax revenue (Rs 5,457.56 crores), of course, will be approximately in the same proportion as in 1970-71.

The above makes it clear that during the past 25 years, although non-tax revenue has assumed significantly higher importance, the reliance on indirect taxes has been to a much greater extent in the mobilisation of additional resources for the central exchequer.

Among indirect taxes, the union Finance ministers have been relying more and more on excise levies than on customs duties. A good deal of revenue from customs duties has flowed from the counter-vailing levies necessitated by increases in excise imposts. Since 1950-51, whereas

the revenue from customs duties has gone up from Rs 157.15 crores to Rs 1,300.00 crores (revised estimate for the current financial year), that from excise levies has increased from a bare Rs 67.54 crores to as much as Rs 2,481.80 crores. Next year's estimates put the yields from the two levies at Rs 1,284.05 crores and Rs 2,920.76 crores, respectively. Emphasis on excise duties as a major source of revenue came to be placed immediately after the launching of the first five-year Plan in 1950-51 with the result that the revenue from this source soon overtook the realisations not only from customs levies but also from all other imposts.

Another interesting fact that emerges from an analysis of the revenue receipts of the central government during the past two and half decades is that whereas the revenue from taxes on income and expenditure, on property and capital transactions and from customs duties has been going up steadily, showing occasional jumps when in some years these

imposts were put up quite steeply, that from excise duties has been at least doubling in every five-year period. The revenue from excise duties rose from Rs 67.54 crores in 1950-51 to Rs 128.68 crores in 1955-56, Rs 341.25 crores in 1960-61, Rs 752.00 crores in 1965-66, and Rs 1,368.50 crores in 1970-71. The revised estimates for the current financial year place this revenue at Rs 2,481.80 crores. Next year it is expected to go up to as much as Rs 2,920.76 crores.

Among the indirect taxes, proportionately greater reliance on excise duties has not been surprising. With the development of the economy, customs revenue does not grow as fast as revenue from excise duties. The other elastic source of revenue—imposts on land (a direct-tax), sales tax, etc.—fall in the jurisdiction of the state governments.

In conformity with the general trend in indirect taxes during the last 25 years—which was interrupted twice only, for the first time in the first half of the 1960s and then in 1973-74 when customs levies



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were put up to yield more additional revenue than excise duties—Mr Subramaniam has relied overwhelmingly on excise duties to raise additional revenue next year. Of the net Rs 287.77 crores revenue expected to be realised from the new taxation proposals, Rs 238.85 crores will accrue to the centre and the remainder to the state governments. The central revenue will benefit to the extent of Rs 194.81 crores from the changes in excise duties, Rs. 34.05 crores from customs levies and Rs 2.26 crores from adjustments in direct taxes.

So far as customs duties are concerned, Rs 9.55 crores additional revenue is anticipated to accrue on account of the countervailing import levies necessitated by increases in excise imposts on motor spirit, furnace oil, synthetic yarn and some other items. The balance Rs 24.50 crores will result from the stepping of the countervailing duties on copper and copper alloys (by Rs 3,500 per tonne) and zinc (by Rs 2,125 per tonne). No change, of course, has been effected in the customs tariff rates. The auxiliary duties of customs levied under the Finance Act of 1974 too have not been tempered with. They are being continued undisturbed up to June 30, 1976.

The countervailing duties on motor

spirit, furnace oil, synthetic yarn and some other items have been raised by Mr Subramaniam in the normal course as a sequel to enhancing the excise duties on them. The same, however, is not the case with zinc and copper and copper alloys. The countervailing duties on them have been stepped up in view of the decline in their international prices during the recent past. As a result of the above step, the Minerals and Metals Trading Corporation, through which imports of non-ferrous metals are being effected, should be able to offload without much loss its unduly large stocks of copper and zinc worth about Rs 61 crores, which have got piled up owing to the recent recession in the two markets. The domestic producers of the two metals too should be able to realise somewhat better prices for their products. But this will not help at least Hindustan Copper to wipe off its loss. Apart from the high cost of domestic production resulting from the smelting of lower grades of copper ore than in the major copper exporting countries, the major reason for the loss to Hindustan Copper is the high excise duty its production has been attracting since last year.

The excise duty on copper was raised last year from Rs 2,625

to as much as Rs 7,000 per tonne on the ground that the international price was soaring. With this high rate of excise duty, Hindustan Copper will still be at a disadvantage even though the duty on copper imports has been raised by Rs 3,500 per tonne. The increase in the countervailing duty on copper imports does not offset the increase in excise duty effected last year which was of the order of Rs 4,375 per tonne. Zinc producers, however, should stand to gain significantly, for as against Rs 1,725 per tonne increase—to Rs 2,625—in excise duty on this metal in the last year's budget, the countervailing customs duty on it has been stepped by Mr Subramaniam by as much as Rs 2,125. The domestic producers of copper and zinc are allowed to charge the same prices as the Minerals and Metals Trading Corporation. The sale prices of MMTC are based on imported prices plus the customs duties and a small margin of profit in lieu of service charge. The fall in the international prices of the two metals is said to have been very pronounced. There is, thus, a case for a downward revision of the excise levy on copper.

As regards excise duties, substantial additional revenue is envisaged by Mr Subramaniam from the increases effected

TABLE I  
Revenue of Union Government

|                                                                      | 1950-51 | 1955-56 | 1960-61 | 1965-66  | 1970-71  | (Rs crores) |          |          |
|----------------------------------------------------------------------|---------|---------|---------|----------|----------|-------------|----------|----------|
|                                                                      |         |         |         |          |          | 1974-75     | 1975-76  |          |
|                                                                      |         |         |         |          |          | Budget      | Revised  | Budget   |
| <b>Total Net Tax Revenue of Union Government</b>                     | 357.00  | 411.47  | 730.14  | 1,784.62 | 2,451.36 | 4,299.62    | 4,903.53 | 5,457.56 |
| Of Which:                                                            |         |         |         |          |          |             |          |          |
| Taxes on Income and Expenditure                                      | 125.70  | 113.23  | 191.97  | 453.72   | 484.60   | 878.74      | 972.68   | 1,088.13 |
| Taxes on Property and Capital Transactions                           | 3.81    | 2.55    | 13.49   | 19.83    | 26.86    | 56.27       | 58.73    | 61.92    |
| Taxes on Commodities and Services                                    | 227.49  | 295.69  | 524.68  | 1,311.07 | 1,939.90 | 3,364.61    | 3,872.12 | 4,307.51 |
| (i) Customs                                                          | 157.15  | 166.70  | 170.03  | 538.97   | 524.02   | 937.05      | 1,300.00 | 1,284.05 |
| (ii) Union Excise Duties                                             | 67.54   | 121.68  | 341.25  | 752.00   | 1,368.50 | 2,345.71    | 2,481.80 | 2,920.76 |
| Non-tax Revenue                                                      | 48.86   | 69.72   | 147.32  | 535.77   | 890.50   | 1,340.36    | 1,581.15 | 1,656.45 |
| <b>Total Net Revenue of Union Government</b>                         | 405.86  | 481.19  | 877.46  | 2,320.39 | 3,341.86 | 5,639.98    | 6,484.68 | 7,114.01 |
| States' Share in Union Taxation*                                     |         | 73.59   | 165.38  | 276.05   | 755.44   | 1,197.99    | 1,224.41 | 1,381.86 |
| Of which:                                                            |         |         |         |          |          |             |          |          |
| Excises, including additional levy in lieu of sales tax, account for | —       | 16.57   | 75.01   | 145.92   | 390.05   | 698.10      | 702.54   | 830.15   |

\* The union government's revenue has been deducted; so also for the total taxation effort of the union government.

by him in the levies on free-sale sugar and khandsari, cement, yarns and fabrics (cotton as well as rayon and synthetic), aluminium, tobacco, motor spirit and furnace oil and some categories of paper and board. Several other items, including dystuffs, toilet preparations, glass and porcelain ware, electric fans and air-conditioners (including their parts), electric wires and cables, etc., too are expected to yield sizeable additional revenue, but the increase in the incidence of excise levies on them by and large has been kept moderate. The other items subjected to increased burden on a modest scale include tea, tyre flap, safes and strong boxes, gramophones and cine-

matograph films. A new levy at the rate of 15 per cent ad valorem has been proposed on graphite electrodes and anodes.

One per cent excise duty has also been proposed, with a few exceptions, to cover all goods produced for sale or other commercial purposes not elsewhere specified in the Central Excise Tariff Schedule. The exemptions granted are for the products of factories not employing more than 49 workers in case power is used and not more than 99 workers if power is not used. Exemption has also been granted from this levy on intermediate products and component parts produced in a factory and also consumed there

itself for the manufacture of finished goods.

The excise burden on free-sale sugar (the duty on levy sugar meant for domestic distribution through fair-price shops) and cement has been raised quite steeply to yield Rs 30.25 crores and Rs 15.95 crores, respectively, primarily to curb consumption within the country and to throw up larger surpluses for export. The khandsari units will hereafter work under the normal central excise procedure and pay a duty at 17.5 per cent ad valorem to yield Rs 19.60 crores. The current compounded levy scheme on this item has been withdrawn. This measure

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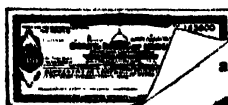
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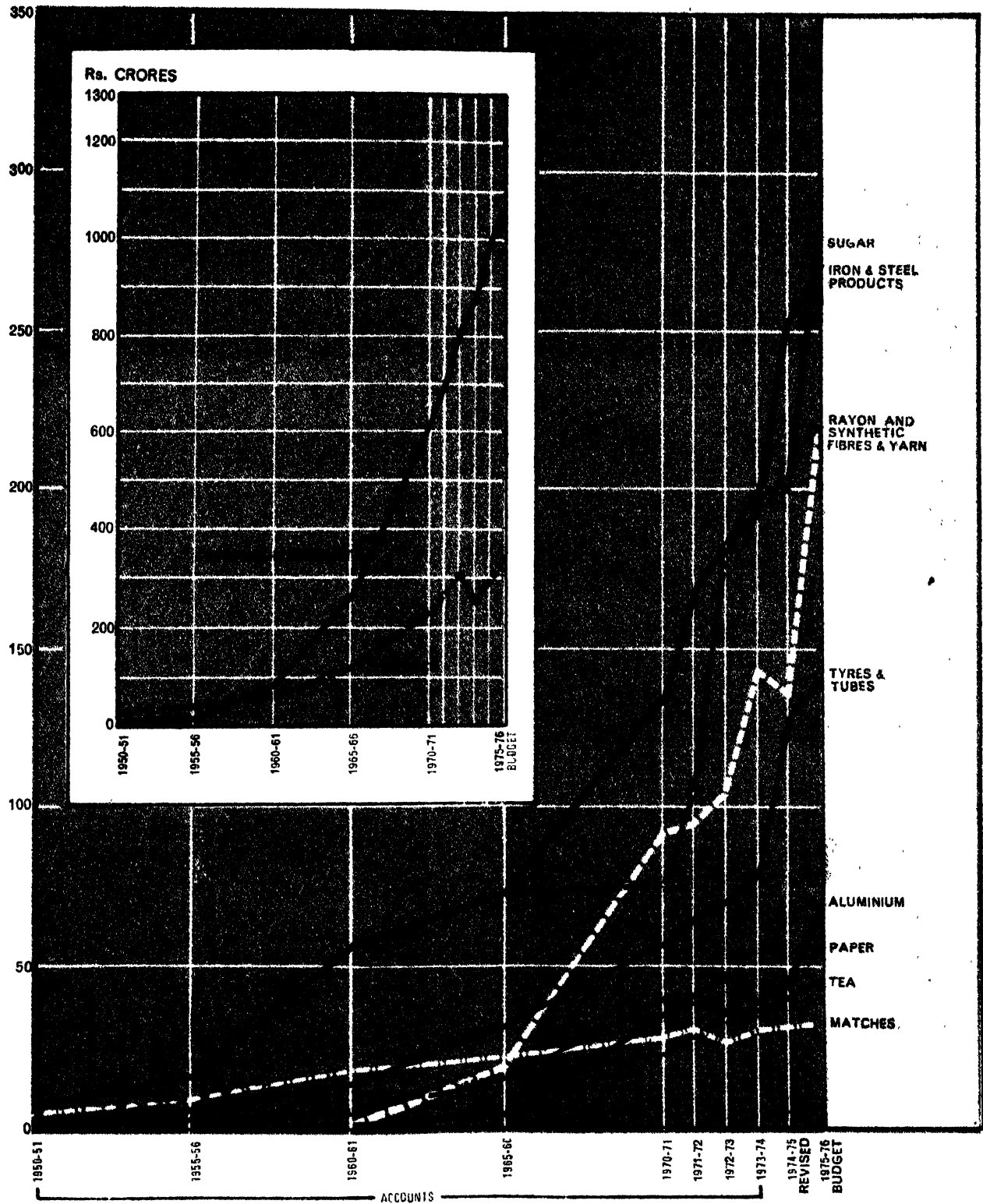


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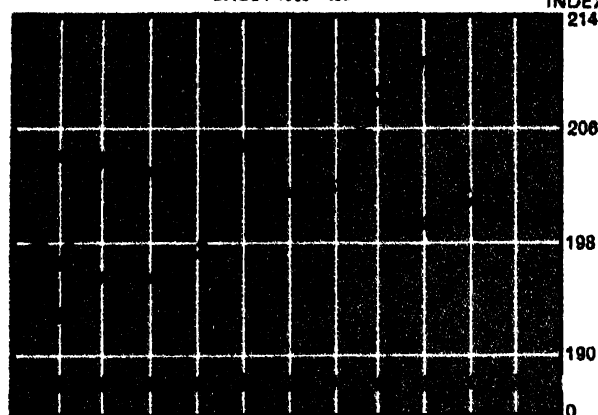
# EXCISE LEVY ON SELECTED COMMODITIES 1950-51 TO 1975-76

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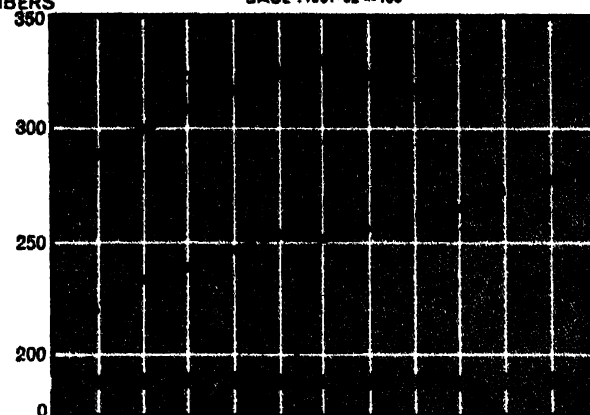


## SELECTED ECONOMIC INDICATORS

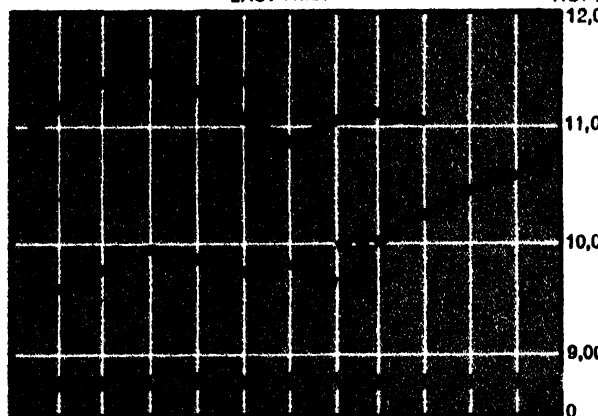
**INDUSTRIAL PRODUCTION\***  
BASE: 1950 = 100



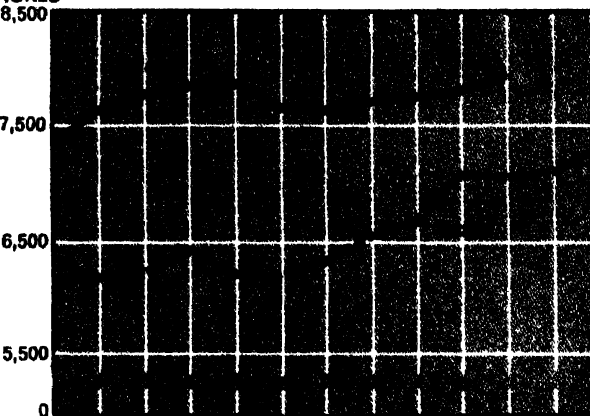
**WHOLESALE PRICES**  
BASE: 1951-52 = 100



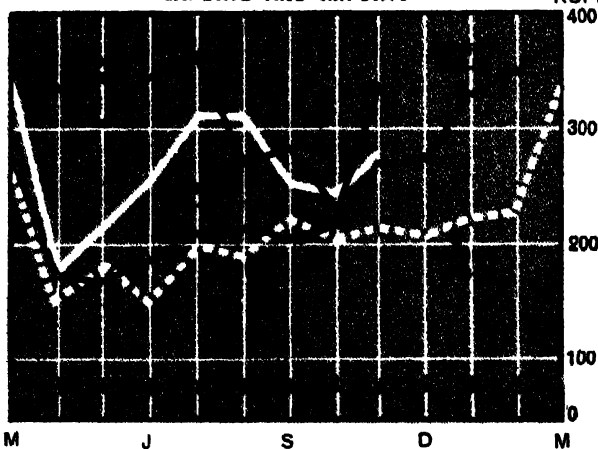
**MONEY SUPPLY**  
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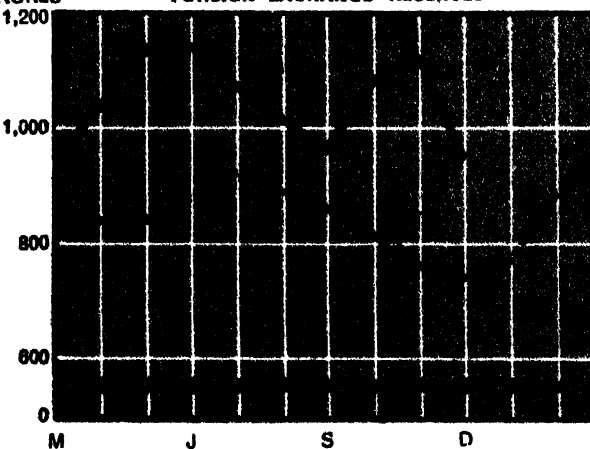
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\* Seasonally adjusted

should help in the sugar manufacturing units attracting increased supplies of sugarcane so as to increase their output to the maximum. The cane crop being quite satisfactory, it is expected that as a result of the above levy, sugar output during the current crushing season may go up to 4.3-4.4 million tonnes. The production trend so far has been quite encouraging. Up to January-end, nearly three lakh tonnes more sugar had been produced in comparison with the last year's output. Sugar and cement exports undoubtedly are attractive propositions at present due to high international prices, even though sugar prices have tended to soften recently. The two commodities, further, are in demand in the west Asian countries. Larger exports of them should add considerably to our foreign exchange earnings.

#### Excise levy

Tea and fine and super-fine cloth too fall in this category to some extent, although the primary purpose of raising the excise burden on them is to mobilise additional revenue. The excise levy on all types of tea, of course, has not been raised, even though the increase in the levy is only modest—10 to 15 paise per kg. Teas of zone III have been given some relief as they had been hitherto subjected not only to the highest rate of duty but also their cost of cultivation was high and yields low. Excise levy has been raised on the teas of the other four zones—I, II, IV and V. Slightly larger surpluses of tea should become available for export as a result of the enhanced burden of the excise duty, though it will, after raising the ceiling limit on the quantum of rebate admissible for exported teas under the scheme from the existing level of 75 paise to 85 paise per kg yield only an additional revenue of Rs 3.40 crores. The raising of the ceiling for rebate admissible to exported teas apparently was necessary lest exports should suffer from competition from the other tea producing countries.

In the case of fine and superfine cloth, the excise burden has been increased not only through raising the duty at the yarn stage but also by fixing a uniform rate of compounded levy of

Rs 200 per loom per year for units where not more than 49 powerlooms are installed and by fixing quantitative limits upto which fents and rags of cotton fabrics can be cleared at concessional rates. Fents and rags cleared in excess of the prescribed limit will be required to pay the higher duty. The idea is to discourage misuse of the concession. Although the world trade in textiles had suffered a setback a few months ago, it is said to have picked up again. Larger exports of fine and superfine cloth should result from slightly higher exportable surpluses becoming available owing to the above changes in excise levies. The net addition to the excise burden on cotton yarn and fabrics has been estimated at slightly over Rs 17 crores in the next year. Handloom products are not to be affected.

But contrary to expectations, the excise burden has been raised very significantly on rayon and synthetic yarns (including blended yarns) and fabrics. The net increase in revenue from the adjustments made in the excise duties on these yarns and fabrics—the former has been raised quite steeply and the latter scaled down on administrative considerations—has been estimated around Rs 32 crores. The sluggishness in the demand for caprolactum obviously did not warrant additional excise burden on rayon yarn and fabrics. But perhaps revenue considerations were more pressing than the state of the synthetic fibres industry. The textile sector as a whole, indeed, will be making considerably more contribution to the central as well as state exchequers—to the extent of nearly Rs 50 crores.

#### Tax on motor oil

The increase in the burden of excise duties on motor spirit, though modest around 10 paise per litre, has been effected with the twin objectives of restricting the outgo of foreign exchange on imports of crude oil and raising additional revenue to no insignificant extent—Rs 18 crores. The same is the case with furnace oil, though an additional reason for putting up the excise levy by three paise a litre on this petroleum product is the discouragement of its use in the

interest of encouraging the use of the alternative indigenous sources of energy, particularly coal. Significantly enough, diesel oil and kerosene have been spared from additional imposts, the former on account of its large use in agriculture and public transport and the latter owing to not hurting the interests of the rural folk who use it for lighting purposes. With the duties on these products having been raised steeply in the last two years, further hike in them was not warranted even otherwise.

#### Concern for power industry

Of the remaining modifications in excise duties, the most significant apparently is the sharp increase in the levy on commercial grade (CD) aluminium. This duty has virtually been doubled from 40 per cent ad valorem (including the auxiliary duty) to nearly 80 per cent. Mr Subramaniam has justified the enhancement in this levy on the consideration that the output of electrical conductor grade (ECG) aluminium has to be pushed up as it has fallen disproportionately in the recent years compared to that of commercial grade aluminium. In view of the emphasis being put on the development of power in the country, the stress on stepping up the manufacture of ECG aluminium is not unwarranted. But the wide difference between the duties on this type of aluminium and CG aluminium can create a very ticklish position.

As a result of the increase in the duty on CG aluminium, its price should go up very markedly from the present level of about Rs 7,364 per tonne, including basic excise and auxiliary duties, to nearly Rs 10,000 a tonne, as along with the Rs 2,000 per tonne increase in basic duty the auxiliary duty will go up by Rs 200. Further aluminium prices are expected to be revised upwards by Rs 404 a tonne in the near future (the decision in this regard is understood to have already been taken by the union government). The Bureau of Industrial Costs and Prices is stated to be again looking into the cost structure of the aluminium industry to see whether the claim of the industry for another significant increase in prices on account of higher costs is justified. As the excise levy on ECG aluminium has been maintained, the



difference between the price of this type of aluminium and that of CG aluminium, which currently is about 250 per tonne, should grow to at least to Rs 2,500 a tonne. This can be expected to result in some ECG aluminium finding its way unauthorisedly to the open market.

Apart from the above malpractice in the market, the aluminium manufacturing units may also be burdened with undue stocks of CG metal. Since the production of aluminium in the country in the recent past has not been up to the optimum level because of power shortage, much cutback in the production of CG aluminium may not be expected if the power supply position improves, as can be expected with the increased production of coal and the likelihood of the next monsoon being at least normal. The increase in the production of the metal owing to the better availability of power can indeed be in the case of EC grade without bringing down the output of commercial grade, for an increase in overall production will by itself significantly raise the proportion of the output of ECG metal. It remains to be seen how the government will meet the above development in the aluminium market.

#### Moderate imposts

The enhanced burden of excise levies on such items as cosmetics and toilet preparations, glass and glassware, chinaware and porcelainware, air-conditioners and parts thereof, electrical fans, electric wires and cables, motor vehicle parts, gramophone parts, safes and strong boxes, etc., cannot be objected to any seriously as apart from this burden being moderate, the items do not affect the poorer sections of consumer. The case with paper and board, excluding printing and writing papers, mill boards, straw boards and corrugated boards (on which no additional burden has been imposed) is no different. The sharp increase in their prices during the last two years may not make it possible for the manufacturers to pass on the increased duty to consumers. Significantly enough, prices of some items such as electric fans, on which excise levies have been raised, have not gone up in the market because of lack of adequate demand for them.

In the case of tobacco, although the

expected additional revenue next year is fairly large—Rs 26.88 crores—a significant portion of it will accrue from machine-made branded bidis, chewing tobacco sold under brand names and snuff. A major portion, of course, will accrue from cigarette and pipe smokers. The adjustments in the excise levies on the above-mentioned manufactured tobacco items, of course, have been necessitated to some extent by the rationalisation effected in the duty on unmanufactured tobacco in the light of the report of the Tobacco Excise Tariff Committee.

#### An innovation

The one per cent excise levy proposed on all goods produced for sale or other commercial purposes not elsewhere specified in the Central Excise Tariff Schedule, with a few exceptions, has been proposed primarily to assess the scope for widening the excise net in the coming years. This measure is expected to yield next year only about 34 crores, but this apparently should be a gross underestimate as the impact of this levy is bound to be wide-ranging. Mr Subramaniam has preferred to go in for this levy than the one recommended by Bhoothalingam Committee a few years ago. Mr Bhoothalingam had suggested a levy on the value added by a manufacturing unit. This proposal has

not been followed presumably on administrative considerations. But even with all the exemptions granted by Mr Subramaniam from his levy, the administrative task of collecting it is not going to be easy.

#### Uncovered gap

With the union government having decided to step up next year the outlay on the Plan programmes by 23 per cent, the Finance minister obviously could not have remained content with additional tax proposals impinging on the purses of consumers to a smaller extent than he has done. In fact, the uncovered gap of Rs 225 crores in the next year's budget is large indeed; it can be expected to grow further if the government servants have to be compensated for the rise in prices beyond the level of 272 points consumer prices index up to which they have been granted additional dearness allowance in terms of the recommendations of the third Pay Commission. Deficit financing casts an inequitous burden on the poorer sections of society. By his taxation proposals, Mr Subramaniam has tried to contain the burden on these sections and enhanced it very significantly on the more affluent ones. This fits in the current philosophy of the ruling party, although opinions will differ whether it was at all necessary to raise

TABLE II  
Growth in Revenue from Union Excise Duties (including Additional Duties in Lieu of Sales Tax and Cesses) on Some Selected Commodities—1950-51 to 1975-76  
(Rs crores)

| Commodity              | 1950-51<br>(Accounts) | 1960-61<br>(Accounts) | 1970-71<br>(Accounts) | 1975-76<br>(Budget) |
|------------------------|-----------------------|-----------------------|-----------------------|---------------------|
| Petroleum Products     | 2.99                  | 101.07                | 608.18                | 1111.36             |
| of which: Motor Spirit | 2.08                  | 40.46                 | 173.10                | 403.00              |
| Sugar                  | 6.46                  | 55.10                 | 135.85                | 275.85              |
| Textiles *             | 9.26<br>(30.89)**     | 65.92                 | 199.71                | 434.74              |
| Cement                 | —<br>(2.18)**         | 18.45                 | 44.07                 | 111.65              |
| Aluminium              | —                     | 1.17                  | 34.10                 | 69.00               |
| Tobacco                | 31.9                  | 59.41                 | 226.90                | 423.96              |
| Tea                    | 3.36                  | 7.47                  | 39.83                 | 46.40               |

\* Yarn as well as fabrics of all types—cotton, synthetic as well as woollen.

\*\* 1955-56.

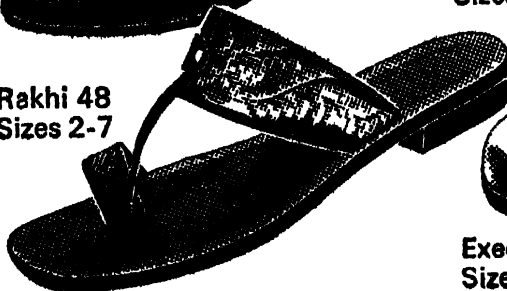


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the Plan outlay next year by as much as 23 per cent. The inflationary impact of the budget appears to be quite significant, even though the Finance ministry sources have claimed otherwise. Efforts at containing the prices spiral apparently should yield more wholesome results in the long run than trying to accelerate development irrespective of the price rise. If the prices spiral can be contained, it should be possible to achieve better physical results from a given outlay on Plan programmes than would be the case if the rise in prices continues to push up development costs.

In the end, mention may be made of how the burden of excise duties (including additional levies in lieu of sales tax on sugar, tobacco and textiles and cesses on tea, textiles and crude oil) has gone up since 1950-51 on some of the items which have been subjected to a further dose of taxation by Mr Subramaniam. The revenue from the above duties on petroleum products next year is expected to

go up to as much as Rs 1111.36 crores, from a bare Rs 2.99 crores in 1950-51. During this period, the domestic output of these products has increased from about 0.45 million tonnes to approximately 20 million tonnes—nearly seven million tonnes from indigenous crude oil and the balance from imported crude. Incidentally, imports of refined petroleum products yield customs revenue to the tune of nearly Rs 100 crores. Thus, the revenue from petroleum products alone has grown within the last two-and-a-half decades by nearly 400 times, whereas the consumption has gone up by about 48 times only.

The case with such other products as sugar, tobacco, textiles, cement and aluminium is not much different, although the growth in revenue from them has not been as disproportionate as from petroleum products. The case of petroleum products has been an exceptional one due to the dire need to contain consumption in the interest of

keeping the import bill within our paying capacity. Sugar output, which amounted to 12.65 lakh tonnes in 1950-51, is expected to go up to nearly 43 lakh tonnes during the current crushing season. Thus, whereas production has increased by about 3½ times, the excise revenue from sugar has grown by nearly 40 times—from Rs 6.46 crores to Rs 275.85 crores (budget estimate). The revenue from tobacco by next year similarly would have multiplied by approximately 13 times, while the production would be growing just by about three times. The basic point that emerges from the above is that excise levies in some items have been raised very steeply, especially in the last one decade. Their contribution to the uptrend in prices has been no small. With the present level of excise duties on many items, revenue can be mobilised a great deal only if their production can be expanded expeditiously. This should have a very healthy impact on the prices level as well.

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| AUTHORISED CAPITAL  | Rs. 20.00 Crores       |
| PAID-UP CAPITAL     | Rs. 3.63 Crores        |
| GROSS PREMIUM       | Over Rs. 50.00 Crores  |
| ASSETS              | Over Rs. 100.00 Crores |

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# State finances and plans

Hardev Singh

OF THE eleven states which have already come out with their budgets for 1975-76, as many as five have revealed deficits on revenue account. This does not compare very unfavourably with the previous year when four of these states showed deficits. It may however be observed from Table I that the number of states declaring deficit budgets was much larger in 1973-74; nine out of the above eleven states had a negative balance in that year.

Another significant feature of the state budgets is that the cumulative total increase in the receipts on revenue account during the last three years has not been as spectacular as it has been in the case of the central budget. The revenue receipts have increased gradually over the three years from Rs 3,455 crores to 4,270 crores. During these years, the central budget has jumped from Rs 7,305 crores to Rs 10,158 crores.

Only two of the four southern states—Kerala and Tamil Nadu—have recorded deficits on revenue account during 1975-76, as against deficits for all the

four states during 1973-74. Although the increase in the proposed expenditure has been quite sharp in the case of Karnataka and Andhra Pradesh, rising by 21 per cent and 15 per cent, respectively, in one year from 1974-75 to 1975-76, both these states have managed to show surpluses. On the other hand, Tamil Nadu, with 11 per cent rise in expenditure during the year, has not been able to avoid going into the red.

## Deficits covered

Rajasthan recorded considerable recovery on revenue account during the current financial year: it was able to convert its 1973-74 deficit of Rs 56.73 crores into a surplus of Rs 6.61 crores. Next year's surplus is likely to be Rs 18.94 crores. Bihar's finances also show a similar pattern only with the difference that the deficit in 1973-74 was very small—just Rs 1.42 crores—and the surplus during 1974-75 was Rs 33.85 crores. The surplus during 1975-76 has been estimated at Rs 38.79 crores.

Gujarat has consistently been a surplus state on revenue account, with surplus rising from Rs 7.08 crores in 1973-74 to Rs 30.30 crores in 1974-75 and Rs 27.93 crores (anticipatnd) in 1975-76. Madhya Pradesh is another state which has been showing a surplus—Rs 24.62 crores in 1973-74, Rs 7.64 crores in

1974-75 and Rs 35.09 crores for the next year.

Orissa, West Bengal and Assam have succeeded in reducing their deficits during the last three years. From their respective deficit of Rs 33.98 crores, Rs 24.76 crores and Rs 22.78 crores in 1973-74, the three states have reached a stage to expect deficits of only Rs 6.80 crores, Rs 5.36 crores and Rs 6.11 crores in 1975-76.

Taking into account the capital budgets, seven states show an overall deficit balance for the next year. This is despite the fact that eight of the above 11 states have come out with additional taxation proposals. West Bengal, for instance, is likely to have a nominal surplus of Rs 27 lakhs during 1975-76 after taking into account the proposed additional taxation expected to yield nearly Rs 12 crores. Mr Sankar Ghose, the state Finance minister, has expressed his satisfaction by announcing that the financial position of West Bengal has improved considerably. The new taxation measures proposed include increase in excise duty on liquor, rise in the existing rate of tax for air-conditioned hotels and restaurants, rationalisation of rates of sales tax, especially on luxury goods, an upward revision of stamp duty on transactions above Rs 5,000, a property

TABLE I  
State Budgets  
(Revenue Account)

| States         | 1973-74<br>(Revised Estimates) |                     |         | 1974-75<br>(Budget) |                     |         | 1975-76<br>(Budget) |                     |         |
|----------------|--------------------------------|---------------------|---------|---------------------|---------------------|---------|---------------------|---------------------|---------|
|                | Revenue Receipts               | Revenue Expenditure | Surplus | Revenue Receipts    | Revenue Expenditure | Surplus | Revenue Receipts    | Revenue Expenditure | Surplus |
| Andhra Pradesh | 410.53                         | 415.31              | —4.78   | 441.70              | 427.61              | +14.09  | 505.37              | 491.88              | +13.49  |
| Bihar          | 362.85                         | 364.27              | —1.42   | 375.80              | 341.95              | +33.85  | 422.46              | 383.67              | +38.79  |
| Karnataka      | 334.00                         | 342.45              | —8.45   | 367.32              | 362.81              | +4.51   | 441.15              | 439.46              | +1.69   |
| Madhya Pradesh | 363.17                         | 338.55              | +24.62  | 391.33              | 383.69              | +7.64   | 456.34              | 421.25              | +35.09  |
| Orissa         | 184.42                         | 218.40              | —33.98  | 230.07              | 231.44              | —1.37   | 268.10              | 274.90              | —6.80   |
| Rajasthan      | 259.00                         | 315.73              | —56.73  | 293.95              | 287.34              | +6.61   | 330.04              | 311.10              | +18.94  |
| Assam          | 135.67                         | 158.45              | —22.78  | 156.94              | 165.76              | —8.82   | 170.29              | 176.40              | —6.11   |
| Tamil Nadu     | 468.00                         | 472.84              | —4.84   | 470.69              | 483.25              | +12.56  | 501.40              | 537.50              | —36.10  |
| Gujarat        | 338.11                         | 331.03              | +7.08   | 327.34              | 297.04              | +30.30  | 391.99              | 364.06              | +27.93  |
| West Bengal    | 388.84                         | 413.60              | —24.76  | 435.56              | 455.42              | —19.84  | 488.22              | 493.58              | —5.36   |
| Kerala         | 209.93                         | 227.08              | —17.15  | 253.40              | 258.97              | —5.57   | 295.00              | 316.00              | —21.00  |
| Total          | 3,454.52                       | 3,597.71            | —143.19 | 3,744.10            | 3,695.28            | +48.82  | 4,270.36            | 4,129.80            | +140.56 |

tax on multi-storeyed buildings and restructuring of the slabs of agricultural income-tax. The state budget has proposed some relief to the small-scale and cottage industries. New small-scale industries get exempted from sales-tax for three years. Silk worm eggs and cocoons will be exempted from sales-tax. Lead pencils, mathematical instrument boxes and maps used by students have also been freed from sales-tax. The exemption limit of sales-tax on cooked foods has been raised from Rs 2 to Rs 2.50. Exemption has been proposed on packing materials used by dealers in periodicals and books.

The Assam budget for 1975-76 reveals a net surplus of Rs 10.42 lakhs. The deficit of Rs 6.11 crores on revenue account has been wiped off by a surplus of Rs 6.21 crores from other sources. The new taxation proposals include an upward revision of electricity tariff and enhancing of the fares of the Assam and Meghalaya Road Transport Corporation.

A turn-over tax on sales is the only

new taxation measure announced by the Orissa Finance minister. The tax, otherwise known as "additional sales tax" is estimated to yield annually Rs 50 lakhs. According to the state Finance minister, it will not be allowed to be passed on to consumers. On the capital account, receipts are estimated at Rs 367.57 crores and expenditure at Rs 327.88 crores, leaving a surplus of Rs 39.69 crores. After providing for capital outlay for certain plan and non-plan programmes, a balance of Rs 21.12 lakhs is left as overall surplus for the year.

#### Reduced deficit

Tax measures announced in the Madhya Pradesh budget will partly succeed in reducing the over-all deficit of Rs 53.02 crores. The state Finance minister has proposed a change in the rates of registration fees which would give an additional annual revenue of Rs 30 lakhs. Increase in rates of sales-tax on certain items from 7 to 8 per cent will yield Rs one crore. The changes in the existing schedule of rates in the Indian Stamp Act will bring in Rs two

crores and prevention of under-valuation of documents another Rs three crores.

The Karnataka budget, which has a surplus of Rs 1.69 crores on revenue account, is likely to have an overall deficit of Rs 17.42 crores after taking into account a negative balance of Rs 28.20 crores on capital account. The new taxation proposals are expected to yield an additional revenue of Rs 14.65 crores in a full year. Announcing the extension of agricultural income-tax to cover all crops, the state Finance minister has indicated that the measures would bring in an additional revenue of Rs 3.5 crores, covering only a small part of the affluent farmers. Other proposals include enhancement of the general rate of multi-point sales-tax, sales-tax on silk fabrics, enhancement of purchase tax on sugarcane, urban land tax, stamp duty on under-valued properties, and surcharge on motor vehicles tax.

The state finance minister has also announced certain reliefs to government employees and pensioners—sanction of



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one instalment of dearness allowance, revision on the central pattern from April 1, 1975, the revision being subject to the provisions of the additional Emoluments (Compulsory Deposit) Act, and extension of the scheme of family pension to certain other categories of government employees.

The rate of old-age pensions has been raised. The house-building and house purchase advances, which had been stopped this year, would be restored. The minister has further announced the establishment of a family benefit fund for government employees who would be required to contribute Rs 10 every month to the fund. In the event of death of a government employee while in service, a sum of Rs 10,000 will be paid to his nominee or legal heir. In the case of an employee retiring on superannuation or leaving service earlier, he would be paid the actual amount contributed by him together with government contributions representing the element of interest.

#### Overall deficit

The Bihar budget, which shows a surplus on revenue account of Rs 38.79 crores has an overall deficits of Rs 36.13 crores after taking into account the deficit of the previous years, and a deficit of Rs 48.08 crores on capital account. The deficit however, is likely to be reduced to Rs 14.33 crores through additional income from fresh taxation. The budget includes a 20 per cent increase in excise duty on country liquor and higher sales-tax. It also contains a proposal for rationalisation of land rent.

A deficit of Rs 36.1 crores on revenue account in the Tamil Nadu budget is likely to be reduced to Rs 30.1 crores after an additional revenue of Rs 6 crores comes in following the new tax proposals. The overall deficit, taking into account the capital budget, is likely to be Rs 20.6 crores. The taxation measures announced include an increase in sales-tax and merger of additional surcharge on stamp duty as well as some marginal adjustment in it as a rationalisation measure. A five per cent single point sales-tax has been imposed on prawns, lobsters, crabs, frogs and frog legs. The present single-point

sales tax of 9 per cent on scents and perfumes has been increased to 12 per cent.

The two per cent single-point sales tax on cotton and cotton yarn has been increased to 3 per cent and sales-tax on coffee, chicory, French coffee and tea has been increased from 5½ to 6 per cent. Single-point sales-tax on oilcake, vegetable oil, machine-made matches and pulses and grams has been increased from 3½ to 4 per cent. The single-point sales-tax of 9 per cent on electrical goods such as washing machines, grinders, mixers, blenders and electronic instruments has been increased to 12 per cent.

#### Low-level revenue

The Andhra Pradesh budget shows a surplus on revenue account of 13.49 crores. As the capital budget has a low level of revenue, the overall deficit is estimated around Rs 20 crores. The state minister for Finance however has hoped to cover the deficit partly through better collection of revenues and partly by persuading the government of India to increase its assistance to the state which has virtually remained frozen since 1973-74. The opposition parties, however, have questioned the state Finance minister's claim that he was not imposing any additional taxation by pointing out that the government had only recently revised the tax on commercial crops and on water rates.

As in the case of Andhra Pradesh, Kerala budget also has shown an overall deficit of Rs 12.2 crores; on revenue account the deficit was higher at Rs 21.00 crores. Like Andhra Pradesh, Kerala too wants to take credit of the measures of resource mobilization already included in the current year's programme but yet to be implemented. The state Finance minister has not proposed any further taxation measures in view of the elections in September. He considered it proper to leave the field open to the government that would assume office after the election.

The Gujarat budget, presented to the Lok Sabha, envisages an overall deficit of Rs 3.27 crores. The surplus on revenue account—Rs 27.92 crores—has been converted into the above deficit because

of substantial negative balance of Rs 137.57 crores on capital account. Mr P. K. Mukherjee, the union Revenue minister for state, has pointed out that it might be necessary for the state government to mobilise additional resources during the year to wipe off the deficit.

The Rajasthan state, which has a surplus balance of Rs 18.94 crores on revenue account, will have a deficit of Rs 14.83 crores on capital account. The capital receipts are estimated at Rs 95.53 crores, against the estimated capital disbursements of Rs 110.36 crores. The overall surplus of Rs 4.11 crores, however, is likely to turn into a deficit of Rs 8.74 crores following the inclusion of additional liability of Rs 12.85 crores on account of increase in dearness allowance. The state Finance minister has pointed out that there has been some improvement in the state's finances following an additional revenue collection from state taxes, better yield from central taxes, and release of advance Plan assistance by the centre.

It may be pointed out that several states will receive grants from the centre for famine relief. Table II shows that

TABLE II  
Famine Relief Recommended by the  
Sixth Finance Commission  
(Rs crores)

| State            | Annual provisions |
|------------------|-------------------|
| Andhra Pradesh   | 4.31              |
| Assam            | 1.25              |
| Bihar            | 4.61              |
| Gujarat          | 4.55              |
| Haryana          | 1.24              |
| Himachal Pradesh | 0.03              |
| Jammu & Kashmir  | 0.35              |
| Karnataka        | 1.91              |
| Kerala           | 0.30              |
| Madhya Pradesh   | 3.41              |
| Maharashtra      | 4.17              |
| Manipur          | 0.04              |
| Meghalaya        | 0.04              |
| Nagaland         | 0.02              |
| Orissa           | 3.48              |
| Punjab           | 0.33              |
| Rajasthan        | 10.19             |
| Tamil Nadu       | 1.52              |
| Tripura          | 0.07              |
| Uttar Pradesh    | 2.18              |
| West Bengal      | 6.61              |
| <b>Total</b>     | <b>50.71</b>      |



Rajasthan has been recommended by the sixth Finance Commission an amount of Rs 10.19 crores annually for famine relief operations. The other states which have been recommended for this grant are West Bengal, Bihar, Gujarat, Andhra Pradesh, Madhya Pradesh, Orissa; the relief in their cases ranges from three to six crore rupees a year. Of the states which have come out with their budgets, only Assam, Karnataka, Kerala and Tamil Nadu are considered comparatively free from famines.

Another interesting provision which was recommended by the sixth Finance Commission was for the upgrading of standards of administration in various states. The provision over the fifth Plan period (Table III) shows the extent to which the states were considered backward from the point of view of administration. Bihar, West Bengal, Orissa, Andhra Pradesh and Madhya Pradesh seem to lead in this respect.

Table IV shows the grants payable to various states by the centre. During 1975-76, considerable grants would go to Orissa, Rajasthan, West Bengal, Andhra

Pradesh, Assam and Kerala. In addition the estimates include, on an ad hoc basis, a lumpsum provision of Rs five crores to meet the likely payment of additional

TABLE IV  
Grants to the States

| Name of state    | (in lakhs of Rs) |         |
|------------------|------------------|---------|
|                  | 1974-75          | 1975-76 |
| Andhra Pradesh   | 42,83            | 43,47   |
| Assam            | 49,66            | 51,33   |
| Bihar            | 18,78            | 23,92   |
| Himachal Pradesh | 31,72            | 32,02   |
| Jammu & Kashmir  | 34,57            | 34,65   |
| Kerala           | 43,85            | 43,46   |
| Manipur          | 21,05            | 21,97   |
| Meghalaya        | 13,61            | 14,23   |
| Nagaland         | 23,77            | 24,68   |
| Orissa           | 56,97            | 60,11   |
| Rajasthan        | 49,30            | 48,57   |
| Tripura          | 20,66            | 21,53   |
| Uttar Pradesh    | 21,61            | 33,91   |
| West Bengal      | 53,29            | 49,27   |
| Total            | 481,67           | 503,12  |

grants to states towards increased gap arising out of net commitment on account of interest liabilities on fresh borrowings and lending.

It may be observed from Table V that the proposed plans for 1975-76 for some states are not as large as those proposed for 1974-75. Andhra Pradesh, for instance had proposed a Plan of Rs 155 crores for 1974-75 while for 1975-76 it has put this expenditure around Rs 152.0 crores. For Assam also the proposal for 1975-76

is far below that in 1974-75. The case with the Kerala, Tamil Nadu and West Bengal plans is not different.

Gujarat's plan outlay for 1975-76, including a special provision of Rs 15 crores for tackling problems created by drought and other natural calamities is contemplated at Rs 187.65 crores. It would be met to the extent of Rs 51.08 crores by local bodies and public sector undertakings from their own resources. For the balance of Rs 136.57 crores provision has been included in the state budget to the extent of Rs 32.17 crores—of the same order as in the current year, excluding the advance assistance of Rs 15 crores. In formulating the state plans for the next year, stress has been laid on the requirements of the core sectors of power, irrigation, agricultural production and productive labour-oriented works such as soil conservation, afforestation, and minor irrigation to meet the problem of scarcity.

#### Computer service

The minister of Finance for Madhya Pradesh has stated that to enable careful monitoring of Plan programmes and also to facilitate scientific budget formulation, a computer-based information system would be established, making use of the modern computer facilities available at the Administrative Staff College in Hyderabad. The state presented a strong case for additional central assistance for both irrigation and power sectors of the state Plan. The government had made out a case for additional assistance for the Nagarjunasagar project

TABLE III

#### Financial Provision over the Fifth Plan for Upgradation of Standards of Administration

(Rs crores)

| States         | Total all services |
|----------------|--------------------|
| Uttar Pradesh  | 290.1              |
| Bihar          | 166.7              |
| West Bengal    | 72.23              |
| Orissa         | 57.06              |
| Andhra Pradesh | 52.62              |
| Madhya Pradesh | 50.34              |
| Rajasthan      | 27.43              |
| Mysore         | 26.45              |
| Haryana        | 21.45              |
| Assam          | 18.02              |
| Punjab         | 13.94              |
| Gujarat        | 9.19               |
| Kerala         | 6.53               |
| Maharashtra    | 3.63               |
| Tamil Nadu     | ..                 |
| Total          | 815.84             |

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too. The allocation for power in the annual Plan for 1975-76 is Rs 54 crores and for irrigation Rs 38 crores, together accounting for 60 per cent of the total Plan outlay for the year.

Bihar's fifth Plan outlay totals Rs 1,267.43 crores. In the first year of the plan the outlay was Rs 168.98 crores out of which the central assistance was Rs 68.68 crores and the balance was to be raised from the state's own resources. Although central assistance for 1975-76 is likely to be of the same order as in 1974-75, the proposal for 1975-76 annual plan is lower than that of the previous year. Unprecedented floods and drought and the unusual law and order situation seem to have overburdened the state with unexpected expenditure. Irrigation and power will claim Rs 82.97 crores, agriculture Rs 32.48 crores, social welfare Rs 25.78 crores and industries Rs 9.94 crores.

#### Low-level assistance

The Finance minister of West Bengal has pointed out that the central assistance for all the states in 1974-75 remained pegged at the level of the last year of the plan. The Rs 150 crores increase in the size of West Bengal's annual plan for 1974-75 required a massive effort on the part of the state with regard to resource mobilisation. A similar effort would be required this year.

Orissa's annual plan size of 1975-76 had been fixed at Rs 89.25 crores which is Rs 25.46 crores higher than the assessed resources of Rs 65.79 crores, inclusive of central assistance of Rs 32.70 crores. Out of this gap of Rs 23.46 crores, the state's share is Rs 7.46 crores and the balance of Rs 16.00 crores is the additional responsibility of the centre. In a way, an inflated Orissa plan is being financed by the centre taking due care of the state's backwardness.

The Rajasthan Finance minister has pointed out that the Planning Commission has accepted a Rs 105.50 crores annual plan for 1975-76 for his state but the state government has increased it to Rs 110.84 crores in view of "the need to meet the basic requirements of the

community." A sum of Rs 63.29 crores of this would go to irrigation and power development Rs 22.91 crores towards social and community services, and the rest for agriculture, industry and minerals.

By and large, the state plans are not

very ambitious in size. In fact the proposed annual plans for all the states add up to Rs 2,602 crores for 1975-76, as against Rs 2,830 crores for 1974-75. The conservative nature of proposed plans shows the inability of the state governments to mobilise additional resources for development.

TABLE V  
State Plans

| (Rs crores)             |          |          |          |
|-------------------------|----------|----------|----------|
|                         | 1974-75  |          | 1975-76  |
|                         | Proposed | Approved | Proposed |
| State                   |          |          |          |
| 1. Andhra Pradesh       | 155.00   | 137.78   | 152.40   |
| 2. Assam                | 96.22    | 53.66    | 58.62    |
| 3. Bihar                | 274.64   | 140.27   | 180.60   |
| 4. Gujarat              | 150.00   | 140.98   | 172.65   |
| 5. Haryana              | 76.01    | 81.60    | 92.25    |
| 6. Himachal Pradesh     | 32.40    | 31.16    | 32.08    |
| 7. Jammu & Kashmir      | 51.77    | 48.00    | 53.00    |
| 8. Karnataka            | 135.00   | 110.75   | 147.00   |
| 9. Kerala               | 101.50   | 73.89    | 88.20    |
| 10. Madhya Pradesh      | 188.84   | 152.25   | 215.36   |
| 11. Maharashtra         | 398.12   | 275.84   | 330.79   |
| 12. Manipur             | 15.13    | 12.06    | 12.78    |
| 13. Meghalaya           | 21.60    | 13.63    | 14.45    |
| 14. Nagaland            | 15.00    | 14.00    | 14.84    |
| 15. Orissa              | 85.11    | 71.24    | 89.25    |
| 16. Punjab              | 124.00   | 107.87   | 163.30   |
| 17. Rajasthan           | 98.00    | 77.85    | 105.50   |
| 18. Tamil Nadu          | 165.87   | 112.00   | 138.59   |
| 19. Tripura             | 18.54    | 11.00    | 11.93    |
| 20. Uttar Pradesh       | 388.60   | 255.19   | 375.00   |
| 21. West Bengal         | 238.25   | 147.87   | 153.83   |
| Total                   | 2,829.60 | 2,068.89 | 2,602.42 |
| Union Territory         |          |          |          |
| 1. Andaman & Nicobar    | 5.20     | 4.67     | 5.50     |
| 2. Arunachal Pradesh    | 7.25     | 7.22     | 7.65     |
| 3. Chandigarh           | 5.05     | 5.22     | 5.35     |
| 4. Dadra & Nagar Hayeli | 0.90     | 0.88     | 0.91     |
| 5. Delhi                | 4.50     | 43.35    | 49.00    |
| 6. Goa, Daman & Diu     | 12.00    | 17.60    | 12.97    |
| 7. Lakshdweep           | 0.75     | 0.83     | 0.82     |
| 8. Mizoram              | 6.90     | 7.25     | 6.90     |
| 9. Pondicherry          | 5.25     | 4.36     | 5.25     |
| Total                   | 88.30    | 91.42    | 94.35    |

# The fever of inflation and its abatement

PRESENTING THE budget of the Government of India on February 28, 1975, for 1975-76, the finance minister, Mr. C. Subramaniam, said that even though there were visible signs of a downward trend in prices, it would be wrong to assume that the fever of inflation had been entirely cured. In his view, it had only shown signs of some abatement. He also said that the problem of poverty in our country could not be solved by merely holding the price line. It could be tackled only through growth. An accelerated rate of growth was the best insurance against perpetuation of poverty. The budget proposals, he added, had been conceived to provide a stimulus to the economy as part of a long-term strategy for stabilising it.

The full text of part 'A' of the budget speech is given below:

It is my privilege this year to present the budget to this august House.

Its formulation has been no easy task; but my burden has been lightened to some extent by my distinguished predecessor in office who had applied many correctives earlier in the year; these severe measures had a distinct impact on an admittedly difficult economic situation that our nation has of late been faced with.

## Interfering factors

It is necessary for me on this occasion to recount in detail the variety of factors, both external and internal, which have interfered with the orderly implementation of our development plans and strategies in recent times. The virulence with which inflation has been spreading and its devastating impact across national boundaries, continue to impose on developing countries such as India burdens and hardships which we have been ill-equipped to withstand. The impact on the living standards of our people and on the pattern of

real incomes within the country has been serious enough. What is even worse is the persistent rise in prices which has eroded the capacity to save and thus imposed a painful constrain on the flow of investible resources so urgently needed to sustain our plans for a better future. The 'Economic Survey' sets out in some detail the anatomy of this complex problem and the characteristic features of the current situation.

It is against this backdrop that I would like the Honourable Members to assess and to judge my budget proposals.

## Underlying approach

What, one might ask, has been the underlying approach—to the basic philosophy—in framing these proposals? Is it merely an ostrich-like exercise to balance receipts and expenditure for the exchequer? Or does the budget seek more positively and purposively, to subserve larger national objectives?

The answer is, of course, clear and unequivocal. We do look upon the budget as an important tool for reaching our cherished socio-economic goals. Development, the security of our country and growth along with social justice continue to govern our priorities; these objectives determine our decisions on *how much* to spend, on *what* programmes to spend and in *what manner* the resources are to be raised. The pattern of our outlays, as well as the relative weight of particular instruments in the raising of resources might vary—indeed, may well need to be deliberately fashioned afresh—from time to time, in response to changing circumstances and requirements. But about the over-riding concern and commitment to deliver the masses from grinding poverty there can, of course, never be any doubt or vacillation. I shall spell out a little later in my speech, the concrete steps contained in

this budget to take the nation forward in this direction.

The immediate concern of our fiscal and monetary policies has been naturally to bring inflationary pressures firmly under check. A series of steps had to be taken—some of them unpalatable and unpopular—to restrain and discipline the demand pressures operating on the limited availabilities of food and fuel, of clothing and housing, of transport and power in an economy besieged by rising prices. In the short-run, there was no equally effective alternative to the planners and policy-makers to balance demand and supply of these essential goods and services for containing inflation. These present a great challenge to our nation and call for courage and fortitude.

However, only incurable pessimism will, I think, bar us from acknowledging with some satisfaction, the fact that already there are visible signs for a downward trend in prices. The 'Economic Survey' provides some details of price trends for important commodities. They give room for some satisfaction, but ordinary prudence demands that we continue to be conscious of the fact that the fever of inflation has not been entirely cured; it has as yet only shown signs of some abatement.

## Growth essential

But then, let us also remind ourselves that the problems of poverty in our country cannot be solved by merely holding the price line. We can meet them only through growth. A rapidly growing economy is the best insurance against perpetuation of poverty; indeed, it is the only solution. We have, therefore, to devise ways and means of stimulating production from the available capacity, and of adding to that capacity in sectors considered vital for improving income and consumption levels of the poor. This requires a multi-pronged

drive to augment our capital and improve our technology and management. The budget proposals, which I shall set forth presently, embody certain specific steps to provide the stimulus to the economy on these lines, as part of a longer-term strategy for establishing and on that basis imparting greater viability and vitality to our economy.

## Farm production

Our ability to meet the minimum basic needs of our people depends crucially on the trend in agricultural production. It is in this light that I regard the claims of agricultural growth as *the first charge* on our developmental resources. Modern agriculture is interlinked with industry. Fertilisers, pesticides, agricultural implements and equipment, besides supply of power, determine agricultural productivity, as much as seeds and water. The sectors of our industry which supply these vital inputs to our agriculture, therefore, merit the highest priority.

The continued sluggishness of Indian agriculture since 1971-72 has contributed significantly to the distortions which have emerged in our economy in the last two or three years. The causes for this sluggishness have been carefully analysed; we have identified a series of measures directed towards imparting a new momentum to this vital sector. The prospects for the forthcoming rabi crop are encouraging. This should not, however, make us complacent in our drive for higher productivity from the land and labour employed in agriculture. A sustained increase in productivity will call for action on many fronts.

The *first* priority is, of course, the supply of good quality seeds of the high-yielding varieties. A major National Seeds Project for large-scale production of quality seeds has been launched. This project will cover production, pro-

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cessing, marketing and quality control of seeds. Regional and state-level seed corporations, with a time-bound programme of self-sufficiency in meeting in full the demand for high quality seeds, are being established. Agricultural universities will be involved in the work to ensure quality. The research and teaching staff as well as the students are to be involved in solving the practical problems of seed production and supply. Arrangements are also being made for an effective seed certification programme, and for the build up of national and local buffer-stocks to meet emergency needs. The financial and other requirements of this programme will be fully met.

*Secondly*, fertiliser production programmes are being pushed through, notwithstanding the escalation in project costs of the new units. The public, the cooperative, as well as the private sectors have been given a role in bringing to fruition additional fertiliser capacity during the fifth Plan period so that dependence on imports—which is costly and unreliable at best—could be mitigated if not done away with altogether.

#### Optimum utilisation

*Thirdly*, programmes designed to ensure optimum utilisation of surface and ground water to aid agricultural production will be pushed through. Command area programmes under major irrigation projects will be supported by sufficient inputs of men and materials so that the new potential is taken advantage of by farmers with the least delay and for maximum social benefit. Interstate river disputes, which unfortunately have been dragging on without solution for a number of reasons in the past, are now being looked into with a special sense of urgency. As a result, the progress in some of the cases has been quite appreciable. Failure to settle these disputes is leading to waste of water and sacrifice of additional agricultural production that the country so desperately needs.

*Fourthly*, special efforts are being made to organise farmers' service societies to provide credit to the farmers in time, to arrange for inputs and help in processing and marketing of the produce. A high-powered group which examined this problem has formulated a scheme for the formation of viable multi-purpose societies linked to central cooperative banks or commercial banks as the case may be. These recommendations have been accepted by the government and the departments concerned are working out a programme of action in order that the objective of timely and adequate supply of credit, backed by physical inputs and covering processing and marketing, is realised, particularly for the benefit of the small and medium farmers.

#### Energy sector

Next only in importance to the agricultural sector is the *energy sector*. The nationalisation of coal is beginning to yield results. During the current year the production of coal is expected to go up by about 10 million tonnes to a record level of 88 million tonnes. I would like to say a special word of appreciation and thanks to the workers in the coal mines; without their enthusiastic cooperation we could not have achieved the increase in production. Reorganisation in the management of mines and supply of much needed equipment, spares and technical expertise have laid the foundations for an expanding trend in coal output. Two of the major constraints in coal production, namely, shortage of rail transport and power especially in the eastern sector, have now been largely removed. With the present trend, it is expected that during the next year, coal production will go up by another 10 million tonnes, that is, to 98 million tonnes. At this level of production, it should be possible to meet the domestic demand in full (including partial substitution of coal for furnace oil); we might also perhaps export some quantity for earn-

ing much-needed foreign exchange.

The immediate impact of steep increase in the prices of crude oil, and the petroleum products, was, no doubt, to strain the country's balance of payments severely. At the same time, this has given a new sense of urgency and momentum to our efforts to increase production of indigenous crude. The anticipated increase within a brief a period as one year, between 1974-75 and 1975-76, is from 7.5 million tonnes to 8.4 million tonnes, an increase of about 12 per cent. What is more important is the progress achieved and the potential that is opening up for a major break-through in the indigenous production within the next 5 to 10 years. The discovery of oil deposits in the structures known as Bombay High is already known. The Oil and Natural Gas Commission is expected to establish the first stage of production from Bombay High in the second half of 1976 with a

yield of about one million tonnes per year. By 1980 production from this source might well reach the level of 10 million tonnes, though one may have to wait a little before making firm estimates. The Bengal and Kutch off-shore basins are also being intensively surveyed and the preliminary results so far obtained appear encouraging. The dynamism exhibited by the Oil and Natural Gas Commission merits our appreciation.

After a period of stagnation and shortage with widespread consequences to both industry and agriculture, recent trends in the production and distribution of electricity also show a welcome improvement. The entire electric industry is being restructured with accent on professionalism, efficiency, competence and precisely defined responsibility for the staff. As a result of these measures, there has been distinct improvement in the levels of power generation in the eastern region. The Central Electricity Authority

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is being reactivated and the state electricity boards are being helped to professionalise their management, to arrange for maintenance services and to improve staff skills. These programmes as well as recent achievements portend an easier power supply situation than has been the case in recent years. Government are also actively examining the possibilities of setting up at the pit heads of major coal fields in the country a number of super thermal power stations. These centrally owned power stations would enable the union government to even out, to some extent, the regional imbalances in power availability, augment the power supply substantially, and to bring about a more rational approach to the problem of generation and distribution of power in terms of real needs.

I wish to submit that the important feature of this bud-

get is a clear-cut identification of these twin priorities—food and energy with the supporting facilities—and the earmarking of adequate funds for the development of these two sectors in the first instance before taking up the claims of other sectors.

#### Cruel choice

This is the kind of inescapable and often cruel choice which planners and policy-makers in developing countries are called upon to make, beset as they are with scarce resources and multiple needs. I have no doubt that Hon'ble Members will endorse the overriding priority that is being accorded in the budget to the food and energy sectors of the economy, even at the risk of depriving some of the other sectors. I should, perhaps, add that in so doing we are observing the basic investment strategy underlying the draft fifth five-year Plan.

Nor would this clear-cut adherence to priorities be confined to the central budget only. In the course of the discussions with the state governments for fixing the magnitude and pattern of the State Plans for 1975-76, it has been ensured that the requirements of agriculture, irrigation and power are met as a matter of first priority and only the balance of scarce resources distributed among other sectors. I would here like to express my gratitude to the chief ministers of state governments and union territories for their willing support and cooperation in agreeing to frame their plans within this broad pattern of national priorities.

In striving to stimulate production in areas of high priority we have not lost sight of two other equally important considerations—one relating to the human and geographical aspects of production and the other, to the proper

distribution of the goods produced. The needs of relatively weak producers and backward regions will continue to receive special attention and support. The problems of production, of diffusion of income and employment, of reduction of inequalities, and of ensuring minimum consumption standards for all have to be looked at in their entirety.

#### Magic number

The specific programmes under these heads should not only be mutually consistent with each other, but should be so designed that they facilitate and reinforce each other. The increase in agricultural output that we are aiming at is thus not a matter of mechanically reaching a magic number. Considerations of balance between classes of farmers and of regions, and of ensuring a pattern of production that is in consonance with our socio-

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economic objectives are equally important.

If the fruits of economic development are to be equitably distributed, adequate attention will have to be paid to the problems of relatively backward regions and districts. To that end, development plans have to be drawn up on the basis of a careful analysis of local needs, potentialities and resources. In this connection, I would lay great emphasis on a comprehensive survey of natural resources in all districts of India. This would enable us to work out operationally meaningful plans and programmes to make optimum use of locally available resources along the lines of the now well-known Karimnagar project in Telangana.

In spite of the various prophecies of doom one hears these days, I am definitely optimistic that the pace of economic development will be considerably accelerated in the coming years. I must, however, point out that the full realisation of our growth potential will require sustained hard work and the utmost discipline on the part of all sections of the community. We are currently faced with an acute scarcity of domestic financial resources.

#### Balance of payments

Our balance of payments position is also under strain. In order to deal effectively with the tasks that lie ahead, we must do everything in our power to increase our exports, and economise in the use of scarce imported inputs. Higher investment in the key sectors is essential, but it must be financed in a non-inflationary manner. This means we must increase the rate of savings. As part of the strategy of discouraging excessive current consumption, we need to evolve a more rational wage and salary structure, which should be more equitable than the present structure, and also in conformity with the changing demands for skills in a dynamic economy.

In our quest for accelerated growth combined with stabi-

lity I place the highest importance on protecting the more vulnerable sections of the population against shortages and the high prices of essential commodities. For this we must have a well-functioning public distribution system for certain basic essential commodities. There must be greater certainty of supply, and the system must in fact serve those whom it is meant to benefit. I, therefore, seek an expansion of the public distribution system, and this pre-supposes efficient arrangements for the procurement of the needed commodities. I am glad that procurement of kharif cereals during the current year has proceeded satisfactorily. This combined with adequate imports, will certainly be of considerable help in the operation of an effective public distribution system of foodgrains in the coming year.

#### Supply of cloth

Cloth is another commodity that must be provided. With the recent enactment of the Sick Textile Undertakings (Nationalisation) Act, government have acquired 103 textile mills whose management had earlier been taken over by the government. The acquisition of these mills provide government with another very useful instrument to regulate the production and distribution of cloth. Government are now considering further steps to ensure that the production of controlled cloth is in line with the agreed target and that this cloth reaches those sections of the community for whom it is meant.

Since resources are scarce, the utmost emphasis has to be laid on increasing productivity. This is a task which requires all round improvement both in public administration and the management of enterprises. I have every hope that recent innovations such as the system of internal financial advisers, performance budgeting, and greater emphasis on monitoring and information, will help to tone up the quality of public

administration. I am happy to note the emphasis being laid on promoting higher productivity in all manufacturing public sector enterprises by applying more scientific policies in the fields of personnel administration, management development, materials management and management information system and above all, through the introduction of modern productivity techniques. The improved performance of a large number of public sector enterprises is a testimony to growing productivity consciousness in the public sector.

I believe this House will concede that as a result of rigorous measures adopted by the government, we have succeeded in combating what seemed to be a run-away inflationary situation. To achieve this, government non-developmental spending was curtailed, increase in wages and a part of additional dearness allowance had to be temporarily frozen, the increase in the rate of

money supply drastically brought down, and severe action taken against hoarders and smugglers. As a result of these efforts for the last few months prices have been slowly but steadily coming down. This is no mean achievement when we consider that in most other countries around the world prices continue to rise. While continuing this policy of rigorous control on spending, there is also need, as I mentioned earlier, for increased investment, both by the central and state governments, and the private sector, in important priority areas. It is one of the objects of this budget to help achieve this. While the rate of spending in other areas must remain low, this is also the time to prepare the ground and do the necessary investigations to prepare for higher investment in later years. This we are engaged in. It is our purpose to invest now in projects in important areas that will yield quick results, and complete those in an advanced stage of implementation. Also

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important is the need to promote domestic savings and to stimulate investment. These various objectives we seek to achieve through the present budget.

I have just mentioned the need to stimulate investment. The capital market has been depressed of late, particularly after the Restrictions on Distribution of Dividends Act. The Unit Trust of India had to face a situation in which repurchases were much higher than the sale of units. The government, therefore, issued an ordinance providing for certain tax relief and other remedial measures which have greatly improved the situation. For improving the capital market, I intend to introduce soon an amendment to the Restriction on Dividends Act which will provide that while dividends in excess of the various limitations laid down in the Act may not be paid, higher dividends can be declared, the deferred dividend being payable in two

annual instalments, but without interest, when the present Act expires. These measures will improve the climate for investment, particularly in respect of new issues.

I am also conscious of the fact that in recent years, there have been steep escalations in capital costs which have acted as an inhibiting factor to new investment in certain capital-intensive industries which are vital for our future growth. Government have appointed a high-level committee to go into this question. When the report of this committee is received, we shall quickly examine the need for suitable fiscal concessions, and new pricing policies as a means of stimulating fresh investment in these areas.

The experience of the last two years amply demonstrates that effective steps to eliminate the black money economy must constitute an essential component of our strategy to impart a measure of stability to

the economy, and to divert the available pool of national savings for high priority investments. I wish to reaffirm that government is firmly committed to root out the evil practices of smuggling, hoarding, black-marketing and tax evasion and have given evidence of their determination in this regard. In this context a separate law for dealing more severely with various economic offences seems to be a necessity.

Having thus outlined our approach, I will now give some details of the revised estimates for 1974-75 and the budget estimates for 1975-76.

#### Revised estimates 1974-75

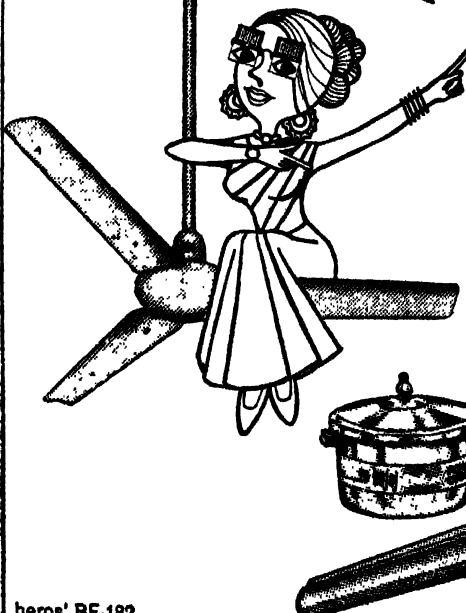
The original budget for the current year envisaged a deficit of Rs 126 crores. It has not been possible to adhere to this figure because many of the assumptions on which the original budget was framed have been affected by adverse trends in the economy, most

particularly the phenomenal price rise this year. The various reasons for this I shall explain

The provision in the budget for food subsidy was Rs 100 crores. In view of the difficult food situation and the need to maintain the public distribution system at the level of 11 million tonnes in 1974, we had to arrange for the import of as much as 5.5 million tonnes of foodgrains. The cost of imported foodgrains also went up greatly. Food subsidy during the year is now expected to amount to Rs 29 crores.

The provisions for salaries of central government employees included in the budget for 1974-75 were based on the price level reached upto December 1973, and a lump sum provision of Rs 120 crores was made to meet the cost of additional dearness allowance. On the basis of the price increase upto April 1974, three instalments of dearness allowance were sanctioned. Prices, how-

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ever, continued to rise till september 1974, and three further instalments of dearness allowance fell due on the basis of the dearness allowance formula accepted by the government. In view of the likely unsettling effects of further dearness allowance payments on the economy, it was considered necessary to review these arrangements. Subsequently, in consultation with government employees, it was decided to sanction instalments which fell due on the basis of the average price index upto 272. It was also agreed that arrears on this account upto December 1974, payable in cash, would be deposited in the provident fund accounts for a short period. I must express my gratitude to the employees for their understanding and co-operation in meeting the present difficult situation. This has enabled us to restrict the draft on the Budget on account of six instalments of dearness allowance to about Rs 230 crores in the current year. This is still Rs 110 crores more than the provision of Rs 120 crores made in the budget.

#### Defence expenditure

Defence expenditure for the current year will be Rs 2157 crores as against Rs 1915 crores in the original budget. Apart from a liability of about Rs 95 crores on account of dearness allowance, the increase is mainly due to revision of pay scales, rise in prices of petroleum products and the higher cost of provisions and transport.

Another reason for increase in the deficit has been the drought and floods with which many parts of the country have been affected. As Honourable Members are aware, central assistance for drought and floods is being made available now only by way of advance release of Plan assistance, or assistance under the Drought Prone Areas Programme, Tribal Development Plans etc so that plan priorities are not disturbed or distorted and that productive and durable assets are created through this assistance.

Such advance assistance will be adjusted against the normal Plan assistance due to the states in the ensuing years. In accordance with this policy, advance Plan assistance of Rs 55 crores has been allocated to the states for drought and flood relief measures in the current financial year. Apart from this, additional assistance has been made available to the states concerned under the Brahmaputra Flood Control Works and Drought Prone Areas Programme also. With these and certain other inescapable commitments towards the states, including release of loans against small savings collections in 1973-74, the additional assistance to the states will amount to Rs 161 crores.

#### Other shortfalls

Other causes for the higher deficit relate to public sector enterprises, fertilizer imports and additional spending on core sector projects. A few of the enterprises did not have an adequate surplus to repay loans taken from government. It, therefore, became necessary to provide additional assistance of Rs 126 crores to a number of undertakings mainly because of increases in wages and dearness allowance and higher cost of fuel which had not been foreseen in the budget.

The budget for 1974-75 did not envisage any net outgo on fertilizer transactions. The issue price from the pool was raised only from June 1974. Subsequently, in order to meet the urgent demand for fertilizers, an additional quantity of nearly one million tonnes had to be imported at considerably higher international prices. There is usually a time lag of about four months between the payment for purchases abroad and the cash recovery from state governments of the cost of fertilizers issued to them. Because of this time lag, large fertilizer imports have been paid for by the central government, but their cost will not have been recovered from the states by the end of this year. The cen-

tral budget, therefore, has to bear this burden. As of now, the estimate of cash outgo on account of fertilizer transactions is about Rs 290 crores.

As the House is aware, a series of economy exercises were effected in August 1974, locating considerable savings in expenditure. However, additional allocations of Rs 190 crores had to be made for Plan schemes in the core sectors like fertilizers, power, coal, petroleum, steel, ports and paper to maintain their schedules, and provide for escalation in costs. Economies anticipated in other sectors could not be realised in full due to steep rise in costs. As a result, the net expenditure on central Plan will go up by Rs 74 crores.

All these adverse factors would have raised budgetary deficit to a very high level, but for the fact that the position has been retrieved to a large extent by the buoyancy in tax receipts.

Receipts from Customs are expected to yield Rs 1300 cro-

res against the budget estimates of Rs 936 crores—the improvement being mainly on account of larger import of fertilizers, iron and steel, and a large increase in the prices of items like fertilizers, machinery and equipment.

Income and corporation taxes are now expected to yield Rs 1460 crores as against the original budget estimate of Rs 1370 crores.

There is not likely to be any appreciable increase in the collection of union excise duties over the budget estimate, as adjusted by levies imposed in the Second Finance Act, 1974.

The strategy of concentration on higher income groups and a general tightening of the tax machinery in all branches has yielded good results. I would like to commend the devotion to duty and the zeal shown by the officers and staff of the revenue collecting agencies.

External receipts on account of loans, show an increase of

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nearly Rs 43 crores mainly on account of larger receipts against debt relief from the members of the Aid India Consortium, and larger non-project loans from IDA. Grants from external sources in the revised estimates in terms of actual receipts show an increase of about Rs 60 crores mainly on account of assistance which India has received from the EEC and the UN Fund for Emergency Relief for countries most seriously affected by the oil crisis, and additional assistance from some other countries.

Even at the risk of rendering the supply position in the domestic market a little difficult, the government took the hard decision of allowing the export of nearly half a million tonnes of sugar. While improving our balance of payments position, this has also benefited the budget to the extent of Rs 125 crores by way of profits.

Even with these various

improvements, the year may end with a deficit of Rs 625 crores. However, nearly Rs 330 crores of this is on account of payments for stocks on hand of imported food and fertilizers, which will soon be recovered. As both these commodities have been purchased abroad, by drawing down our foreign exchange reserves, there is no resultant increase in money supply and the deficit to the extent of Rs 330 crores is, therefore, non-inflationary in character.

#### Budget estimates 1975-76

In the context of continuing shortages in the economy, and the impact of the price rise, framing the budget for the next year has not been an easy task. While developmental requirements must receive the highest priority, the draft on the budget for essential non-Plan requirements like defence, the food subsidy, and the maintenance of social services cannot be ignor-

ed, and are substantial. I have endeavoured to balance two paramount but somewhat conflicting needs in this budget—the short-term need to keep in check inflationary pressures, and the equally important requirement to sustain the tempo of development, which, in the ultimate analysis, is the real solution to the problem of inflation. I am only too well aware that any slackening of our development effort will compound our problem in the future.

The projections of receipts for next year at the existing rates of taxation take into account the satisfactory trends witnessed in the current year. Income and corporation taxes are expected to yield Rs 1570 crores and union excise duties Rs 3500 crores. Receipts from interest tax are expected to be Rs 60 crores. Customs receipts will, however, be less by Rs 50 crores next year because of lower imports of steel, and the bunching of

fertiliser imports towards the end of the current year.

The budget also assumes a credit of Rs 125 crores towards profits on export of sugar on the assumption that exports next year will at least be of the same order as this year.

Receipts from external loans are estimated at the same level as this year's revised estimates. The steep rise in the prices of petroleum products has greatly strained our balance of payments. The position would have been worse but for generous gestures by Iran, Iraq and Abu Dhabi. We hope to secure oil credits from these countries which will provide a support of Rs 230 crores to the budget during 1975-76.

In view of the pressing need to save maximum resources for the Plan, utmost care has been taken to contain non-Plan expenditure. But we have to provide for minimum needs in

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certain areas which are important for security, the maintenance of development work, and for safeguarding the interests of the weaker sections of society. Apart from debt servicing and other obligatory items of expenditure next year, Defence expenditure would be Rs 2274 crores as against Rs 2157 crores in the current year. Food Subsidy for 1975-76 is estimated at Rs 295 crores. As the performance of public sector undertakings is expected to improve, non-Plan assistance to these undertakings will be less next year by Rs 78 crores than the provision in the current year of Rs 217 crores. The outgo on fertiliser transactions next year is estimated at Rs 140 crores.

#### DA to employees

The entire question of dearness allowance increases to central government employees is to be discussed with their representatives in the next few weeks. It is now widely recognised that evolving effective measures for remedying the causes of inflation, though unpleasant and hard, should be preferred to frequent adjustment of prices, incomes and wages, which greatly hampers the process of planned growth. In a country where there is considerable unemployment and underemployment, an excessive preoccupation with the current consumption of those who are fully employed erodes investible resources and seriously affects the pace at which new employment opportunities can be created to alleviate the sufferings of those who are unemployed. Additionally an increase in monetary rewards, not justified by an increase in the country's productive capacity, accentuates inflationary pressures in the economy; this may also threaten the security currently enjoyed by those who are fully employed. While I am, therefore, aware of the hardship caused to government employees by price rises, I earnestly hope that in our forthcoming discussions the dearness allowance question will be considered in its larger perspective.

After a careful and detailed

sectoral review of the Plan requirements for next year, it was felt that the allocation in the central budget for the central, state and union territory Plans should be at least Rs. 3612 crores, if our long-term objectives and urgent priorities are to be adequately fulfilled. This budgetary support of Rs. 3612 crores includes Rs. 1054 crores for states and union territories Plans, including the hill and tribal areas sub-Plans, the requirements of the North-Eastern Council and assistance for power schemes channelled through the Rural Electrification Corporation. It also includes Rs 100 crores of special advance Plan assistance to certain states which may have gaps in resources on the basis of central assistance at the current year's level, to ensure adequate investment in important projects in the core sectors of irrigation and powers. Budgetary support for the central Plan will be Rs. 2558 crores. The total central Plan outlay next year inclusive of extra budgetary resources will be Rs. 3154 crores. The states and union territories Plans will be of the order of Rs. 2806 crores. Thus, the total Plan size for 1975-76 will be Rs. 5960 crores which in financial terms represents an increase of 23 per cent over the 1974-75 Plan of Rs 4844 crores.

#### Steepest step-up

Budgetary provision for the central Plan of Rs 2558 crores represents a step up of Rs 429 crores over the revised estimate of Rs 2129 crores in the current year. I am conscious that a more substantial step up in the Plan investment to provide for achievement of draft fifth Plan targets in all sectors would have been desirable from the long-term perspective of the economy. But we cannot forget that large scale deficit financing leading to further price increases will substantially erode the real content of the Plan and cause more damage to the programme of planned development. We have, therefore, as I stressed earlier, adopted a selective approach and given priority to key sectors of the

economy like agriculture, power, fertilizers, coal, petroleum, essential industries like cement, paper and ship-building, and transport over all other sectors, and even over long gestation projects in the core sectors.

As agriculture is the backbone of the economy, special care has been taken to step up the investment in this sector substantially—from Rs 193 crores in the revised estimates to Rs. 270 crores. The allocations include Rs 50 crores for the Agricultural Refinance Corporation, Rs. 25 crores for Drought Prone Areas Programme, Rs 22 crores to Small Farmers and Marginal Farmers Development, Rs 16 crores for Command Area Development, Rs 23 crores for agricultural research and education, and Rs. 43 crores for the co-operative sector, including the cooperative fertiliser factories.

There will be an increase of Rs 84 crores in investment in fertiliser production over the current year's level of Rs. 192

crores. Adequate funds are being provided for Nangal Expansion, Ramagundam, Talcher, Haldia and Cochin Phase-II, and for several new plants such as Trombay IV and V, Bhatinda and Panipat and a new project at Sindri.

The budget support for the power sector including support for Rural Electrification Corporation will be Rs 140 crores in the next year. Substantial provision has been made for continuing projects like Badarpur extension, Loktak, Baira Siul and Inter-State Transmission Lines. Further, there will be an aggregate provision of the order of Rs 900 crores in the state Plans for power.

Budget provision for coal represents a substantial increase from Rs. 141 crores in this year's revised budget to Rs 229 crores. Coal Mines Authority and Bharat Coking Coal Ltd, have been allowed larger provisions to enable the achievement of the target of production of 135 million

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tonnes by the end of the fifth Plan. Provision has also been made for stabilising the production of lignite at Neyveli at 4.5 million tonnes.

Budget provision for petroleum and petro-chemicals has also been greatly stepped up to Rs 170 crores in 1975-76 as against Rs 60 crores in 1974-75 revised estimates. There will be a considerable increase in the provision for the Oil and Natural Gas Commission, Oil India and Indian Petro-Chemicals Corporation. As the House is aware, a cess was levied in the current year for the development of the oil industry, and the Oil Industry Development Board was set up to coordinate the various development projects to be undertaken for oil development. A sum of Rs. 61 crores from this cess over and above the budgetary support will accrue to this

board next year to be used for oil development.

The provisions in the steel sector, particularly for Bokaro and Bhilai expansion, have been fixed taking into account the likely demand for steel. Full provision has been made for completion of the Korba Aluminium Project.

Next year's Plan makes adequate provision for continuing projects for cement production and also for three new projects. The paper mill in Nagaland is being given high priority. Modernisation of textile mills taken over by the National Textile Corporation has also received special attention.

In the Transport and Communications sector, all continuing major ports, shipping, ship-building and aviation pro-

jects have been adequately catered for

Social Services have not been neglected. Increased provision over the revised estimates for this year has been allowed for village and small scale industries, education, health, family planning, housing and urban development, and welfare of backward classes.

As Honourable Members are aware, two schemes, one for compulsory deposit of increases in wages, and 50 per cent of the additional dearness allowance, and another for compulsory deposit of a percentage of the income of income-tax payers, were introduced in July last. These were necessary to counter the serious imbalances created in the economy by the large increases in money supply. We

are happy that these measures along with other steps taken to curb inflation, have had a stabilising effect on prices. While it is the continuing concern of the government to curb inflationary trends, it is equally important that development efforts should be sustained and adequate resource provided for investment in the vital areas of the economy. In view of this, it has been decided to take credit for borrowing of about Rs 10 crores from the Reserve Bank against the likely addition to blocked deposits which take place in 1975-76.

Taking credit for this amount, the budgetary support of Rs 3612 crores for the 1975-76 Plan will entail a resource gap of Rs. 464 crores. Honourable Members will be keen to know how I propose to deal with this deficit.

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# The budgetary deficit

THE various tax proposals for 1975-76 will yield an additional revenue of Rs 288 crores out of which the share of the states will work out to be Rs 49 crores. The additional revenue accruing to the centre will be Rs 239 crores only which will reduce the anticipated budgetary gap from Rs 464 crores to Rs 225 crores only. The Finance minister described this deficit as a modest one and, in his view, because of the improving prospects for the availability of food, power and fuel, it was not likely to accentuate the inflationary pressure in the economy.

The full text of part 'B' of the Finance minister's speech follows:

Sir, let me present first my proposals in the field of direct taxes. Honourable Members will recall that the rates of income-tax on personal incomes were reduced last year on the basis of a recommendation of the Direct Taxes Enquiry Committee. It was expected that this would lead to better tax compliance. I think the policy adopted last year should be given a fair trial. I, accordingly, propose not to make any change in the rates of income-tax in the case of non-corporate taxpayers.

## Basic rate

As present, the basic rate of income-tax in the case of closely-held industrial companies stands at 55 per cent on the first Rs 2 lakhs of taxable income, and 60 per cent on the balance. On the analogy of the rate structure applicable to the widely-held companies, I propose to modify this provision so as to apply the higher rate of 60 per cent on the entire income of such closely-held companies in cases where the taxable income exceeds Rs 2 lakhs. subject, however, to the usual marginal relief. This measure will yield Rs 4 crores in a full year and Rs 3 crores in 1975-76. There will be no change in the rates

of income-tax in the case of other categories of companies.

The levy of a tax under the Interest-tax Act, 1974 on interest received by scheduled banks has had the effect of increasing, on an average, the cost of borrowings from scheduled banks by about one per cent. The levy of this tax has, therefore, made the acceptance of deposits by non-banking non-financial companies from the public all the more attractive, specially in the context of the selective credit control measures adopted by the Reserve Bank. Some corrective by way of a disincentive to borrowings from the public by these companies seems to be indicated so that credit planning according to the priorities laid down by the government is not defeated. I propose, therefore, that in computing the taxable income of non-banking non-financial companies, only 85 per cent of the interest paid by them on public deposits will be allowed as expenditure for tax purposes. This measure will yield Rs 10 crores in a full year and Rs 7.5 crores in 1975-76.

## Tax holiday

The tax holiday concession is at present available in respect of industrial undertakings that go into production before April 1, 1976 and ships which are brought into use before that date. I propose to extend the concession in these cases for a further period of five years. This concession is at present available to approved hotels irrespective of the date by which they may start functioning. I find no justification for giving preferential treatment to approved hotels over industrial undertakings and ships. I therefore propose to restrict the concession in the case of approved hotels to cases where these hotels start functioning before April 1, 1981.

At present, dividends declared by companies out of their tax holiday profits are

exempt in the hands of shareholders. Experience has shown that this provision is difficult to administer, since any change in the quantum of income of the company distributing dividends requires modification of the assessment of all its shareholders, who may be residing in different parts of the country. I, therefore, propose to withdraw the exemption in respect of dividends paid by companies out of their tax holiday profits attributable to the extended period. Shareholders will, however, not stand to lose, since I propose to increase the quantum of tax holiday profits in the case of companies from six per cent to 7.5 per cent per annum of the capital employed in new industrial undertakings, ships or hotels.

## Corporate savings

In order to channel corporate savings into high priority industries, I propose to exempt from income-tax, inter-corporate dividends derived by domestic companies from new companies engaged in the manufacture of fertilisers, pesticides, paper and cement.

As Honourable Members are aware, initial depreciation allowance at the rate of 20 per cent of the cost of machinery and plant is allowed in respect of the priority industries listed in the Ninth Schedule to the Income-tax Act. Having regard to the importance of pesticides to our economy for increasing agricultural production, I propose to extend the benefit of initial depreciation allowance to the pesticides industry also.

As another measure for promoting investment in desired areas, I propose to exempt from wealth-tax for a period of five years investment in equity shares of new companies engaged in priority industries listed in the Ninth Schedule to the Income-tax Act.

Under a provision made in the Finance Act, 1974, deve-

lopment rebate is admissible in respect of ships which were ordered before December, 1973 if such ships are acquired before June 1, 1975. In view of the time lag involved in acquiring ships, I propose to extend this concession to ships which will be acquired before January 1, 1977, provided orders for their acquisition were placed before December 1, 1973.

## Present concession

Under the existing law, a deduction equal to 20 per cent of the profits and gains derived from the business of publication of books is allowed in computing taxable income. This concession is available for a period of five years ending with the assessment year 1975-76. I propose to extend this concession for another five years.

Our development efforts can be sustained only through promotion of savings. I have, therefore, decided to liberalise the concession currently available under the Income-tax Act in respect of long-term savings through provident funds, life insurance, etc. so as to allow a deduction in respect of 100 per cent of the first Rs 4,000 of the qualifying savings plus 50 per cent of the next Rs 6,000 of such savings plus 40 per cent of the balance. This measure will result in a revenue loss of Rs 8 crores in a full year and Rs 6 crores in 1975-76.

Frequent withdrawals are made from government provident funds. I have, therefore, decided to introduce an incentive bonus scheme to benefit those government employees who do not withdraw any amount from their provident fund accounts during the year. The bonus will be allowed on the subscriptions made during that year and will be calculated at the rate of three per cent for employees drawing pay up to Rs 500 per month and one per cent for employees

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To achieve this goal, Karnataka Electricity Board has started a scheme under which it accepts term deposits from the public on attractive rates of interest, as detailed below:

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| For 24 months and above but less than 36 months | 8% p.a.  |
| For 36 months and above but less than 61 months | 9% p.a.  |
| For 61 months and above                         | 10% p.a. |

Interest is payable every half year, on 1st April and 1st October.

Repayment of the deposit amount and interest thereon is guaranteed by the Government of Karnataka.

Minimum deposit amount is Rs. 500 and additional amounts should be in multiples of Rs. 100.

*Deposits are accepted at:*

- (a) any office of the Board where electricity dues are collected
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awing pay above Rs 500 per month.

Honourable Members will notice that a package of measures has been proposed for improving the investment climate, namely, extension of holiday, exemption of inter- corporate dividends derived from new companies engaged in high priority industries, exemption from wealth-tax of equity shares in new companies engaged in certain priority industries, and incentives to attract savings. Despite the severe constraint of resources, I have thought it advisable to propose these fiscal incentives. In my view, investment in priority sectors has to be encouraged now if we are not to compound our difficulties in the future. These fiscal measures will reinforce the other measures that the government have taken for encouraging greater production in certain vital sectors.

#### **Relief to middle class**

In order to give some relief to middle class families who have to bear the burden of providing higher education for their children, I propose to allow a deduction in respect of expenses incurred by individuals in this regard. In respect of children attending degree or post-graduate courses in medicine, engineering or other technical subjects, the amount of deduction will be Rs 1,000 per child and in respect of children attending degree or post-graduate courses in other subjects or diploma courses in medicine, engineering or other technical subjects, the amount of deduction will be Rs 500 per child. The new concession will be available in the case of individuals whose gross total income does not exceed Rs 12,000 per annum and is restricted to two children in any case. This measure will result in a reduction of revenue of Rs 7 crores in a full year and a little over Rs 5 crores in 1975-76.

At present, income from livestock breeding and poultry and dairy farming is exempt from income-tax. This exemption is prone to abuse by

showing income which would otherwise be chargeable to tax as exempt income. I, accordingly, propose to restrict the exemption to Rs 10,000 in a year. This will mean an additional revenue of Rs 2 crores in a full year and Rs 1.2 crores in the financial year 1975-76.

I propose to exempt from income-tax retrenchment compensation paid to workmen under the Industrial Disputes Act or other similar laws up to a maximum of Rs 20,000.

#### **Liberalised provisions**

There are at present certain income-tax exemption limits applying to salaried assessee's relating to house rent allowance and leave travel concessions. These are being liberalised. Indian technicians employed abroad are also proposed to be given some tax relief.

In order to simplify and rationalise the procedure for assessment of foreign shipping enterprises, the accounts of which are not easily accessible, I propose to provide that the income of such enterprises shall be taken at 7.5 per cent of the aggregate of their gross earnings from traffic originating in India and other earnings received in India. This change is also in line with the practice in some other countries.

At present, contributions made to an approved gratuity fund are allowed as deduction in computing the taxable income. A doubt has been expressed that, under the relevant provisions as presently worded, provisions made in the books of account by taxpayers would also qualify for deduction. This is clearly not the intention. Since the employer continues to have control over these funds, I propose to provide specifically that no deduction for tax purposes will be allowed in respect of such provisions made to provide for future gratuities.

With a view to curtailing ostentatious expenditure in business and professions, I propose to deny depreciation in

respect of imported cars which are acquired after February 28, 1975. Simultaneously, I propose to allow full depreciation in respect of indigenous cars, irrespective of their cost.

At present, trees standing on agricultural land do not qualify for exemption from wealth-tax. In order to encourage planting and conservation of trees, I propose to exempt the value of trees standing on agricultural land from wealth-tax, except in respect of orchards and plantations.

Under corporation tax, the full year effect of the proposals is Rs 140 crores and the yield for 1975-76 will be Rs 10.5 crores. As a result of the concessions given, there will be a net reduction of Rs 13.0 crores under income-tax in a full year and Rs 9.0 crores in 1975-76. The impact of this reduction in 1975-76

on the central revenues will be Rs 2.26 crores.

#### **Indirect taxes**

I now come to my proposals relating to indirect taxes.

While I have had to impose levies covering a wide range of commodities, I have done my best to reduce to the minimum the burden that would fall on the more vulnerable sections of the community. It has also been my endeavour to select items which largely figure in the pattern of consumption of the more affluent sections of society. I have also attempted to select those commodities which are significant in our export efforts so that consumption is thereby reduced in the home market releasing an export surplus which would earn us valuable foreign exchange.

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price of sugar in the international market provides us an excellent opportunity to increase our exports of this commodity, even at some sacrifice. With a view to reducing consumption of sugar for less essential uses and releasing more quantities for export, I propose that the basic excise duty on free sale sugar may be stepped up from 30 per cent *ad valorem* to 37½ per cent *ad valorem*. I do not propose to make any change in the present effective rate of duty on levy sugar, which now accounts for 65 per cent of the total internal releases, so that the average citizen is assured of his quota of sugar at a reasonable price. The proposed increase in duty on free sale sugar will yield an additional revenue of Rs 30.25 crores.

Khandsari sugar is at present chargeable to a duty of 17.5 per cent *ad valorem*.

However, there is a scheme of compounded levy under which khandsari sugar units opting for the scheme pay a fixed sum by way of duty for every week of working, depending on the number and size of the centrifuges used by them. As the compounded levy results in a disproportionately low duty incidence on these khandsari units in comparison with the incidence on regular vacuum pan sugar mills, I propose to withdraw the compounded levy scheme. All the khandsari units will, hereafter, work under the normal central excise procedure and pay duty at 17.5 per cent *ad valorem*. From this proposal I expect to raise an additional revenue of Rs 19.60 crores.

The duty on tea produced in the various zones has remained unchanged for the last five years. Tea prices both in the Indian and London auc-

tions have substantially risen during this period. I, therefore, propose to increase the existing basic duty on loose tea produced in Zones I, II, IV and V by 10 to 15 paise per kg. Tea of Zone III at present bears the highest rate of duty and there is need for giving some relief because of low yield and the high cost of cultivation.

As more than 90 per cent of the tea produced in this zone is exported and since the price increases in respect of these teas have been the least, I propose to reduce the present basic duty for this zone by 10 paise per Kg. Apart from bringing in revenue, the proposed increase in duty on teas of Zones I, II, IV and V will help in making more tea available for export. With a view to ensure that the increase in excise duty on tea does not hit exports,

I also propose to raise the ceiling limit on the quantum of rebate admissible for exported teas under the present scheme from the existing 75 of 75 paise per kilogram to 85 paise per kilogram. The net effect of the proposed changes will be an additional revenue of Rs 3.40 crores.

Cement is another potent foreign exchange earner, and for similar reasons, I propose to step up the basic duty on cement from 30 per cent *ad valorem* to 35 per cent *ad valorem*. This proposal will yield an additional revenue of Rs 15.95 crores.

The import of crude petroleum and petroleum products continues to demand a large share of the total available foreign exchange resources. I feel that so long as energy shortages persist, there is case for making petroleum products more expensive so



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to promote greater economy and efficiency in their use. Against this background, the duty on motor spirit is proposed to be raised by 10 paise per litre. I also propose to increase the duty on furnace oil to induce replacement of oil-fired equipment by coal-fired equipment. Such a duty will be an added reason to replace obsolescent equipment with modern efficient units, even in installations which continue to use oil. However, taking into consideration its use by various industries, the increase proposed is modest—a little less than three paise per litre. Low sulphur heavy stock used for electricity generation will, however, continue to be exempt as at present. These levies on petroleum products will together yield an additional revenue of Rs 26.00 crores.

#### Duty on aluminium

There has been a fall in the proportion of aluminium of electrical conductor grade produced in recent years compared to the commercial grade. Since it is of paramount importance that there should be no shortage of aluminium of electrical conductor grade required by various power systems, I propose to increase by Rs 2000 per tonne the excise duty on commercial grade aluminium thereby providing encouragement for greater production of electrical conductor grade aluminium. The proposed increase in duty on aluminium will yield an additional revenue of Rs 15.00 crores.

I shall now turn to a product on which all Finance ministers have had to rely heavily namely, tobacco and its products. The Tobacco Excise Tariff Committee has recommended a uniform tariff rate for all forms of non-flu-cured unmanufactured tobacco, other than that used for the manufacture of cigarettes, supplemented by a low rate of excise duty on certain specified tobacco products, namely, biris and chewing tobacco sold under a brand name, and snuff. Following the commi-

tee's recommendation, I propose to levy a uniform total excise duty of Rs 3 per kilogram on non-flu-cured unmanufactured tobacco other than that used for the manufacture of cigarettes. This will mean a reduction of Rs 1.60 per kg. in the total duty for biri tobacco, and of Re 0.25 per kg. for hookah, chewing and snuff tobacco. However, in the case of stalks I propose to fix the duty at Rs 2 per kg. against the present rate of Re 0.65 per kg.

#### Tax on bidis

There is already a duty of Rs 3.60 per thousand on biris manufactured with the aid of machines. I now propose to levy a duty of Re 1 per thousand on hand-made biris also, of which 80 paise will be in the form of basic duty and 20 paise in the form of additional excise duty in lieu of sales-tax. For the sake of administrative convenience, this levy will be restricted to biris sold under brand names. The duty on machine-made biris will be correspondingly stepped up from Rs 3.60 to Rs 4.60 per thousand. It will be noticed that those smokers who are not unduly discriminating and are content with unbranded hand-made biris which bear no excise duty should benefit from the reduction in duty on biri tobacco. I also propose to levy a duty of 10 per cent *ad valorem* on chewing tobacco sold under brand names and on snuff. An exemption to the extent of five per cent will, however, be provided in respect of chewing tobacco whose value does not exceed Rs 10 per kg.

If the smokers of branded biris are called upon to pay more, equity requires that those smoking pipes and cigarettes should not be denied the privilege of helping the developmental effort. Accordingly, I propose to raise the effective duty on cigarettes also. The effective basic duty on cigarettes is now 85 per cent *ad valorem*. If value of the cigarettes does not exceed Rs 10 per thousand, and increase

by three per cent *ad valorem* for every additional rupee or part thereof in excess of Rs 10 per thousand. This duty will be increased by five per cent *ad valorem* at all price levels except that the ceiling level of basic duty will continue to remain at 250 per cent *ad valorem*. Similarly I also propose to raise the basic effective duty on smoking mixtures by five per cent *ad valorem*. On account of the rationalisation of duty on unmanufactured tobacco there will be reduction of revenue to the extent of Rs 8.25 crores. But the net additional revenue from tobacco and tobacco products will be Rs 26.88 crores.

Both for raising revenues and as a measure of rationalisation I propose to readjust the rates of duty on rayon and synthetic yarns (including blended yarns), and on rayon or artificial silk fabrics. I propose to shift partially the burden of excise duty on artsilk fabrics from the fabrics stage to the

yarn stage, since collection of revenue at the yarn stage is administratively easier and provides fewer loopholes. The additional excise duty levied on artsilk fabrics in lieu of sales-tax, and the handloom cess, will continue to be levied at the fabric stage; but there will be no basic excise duty on artsilk fabrics except in the case of those fabrics whose value exceeds Rs 15 per sq. metre. This will result in a loss of revenue of Rs 22 crores; to neutralise this loss, and to earn additional revenue, I propose to increase the duty on rayon and synthetic yarns suitably. I also propose to levy a new duty of Rs 20 per kg. on textured yarns in addition to the duty leviable on base yarn used in their manufacture, and to withdraw the existing concessions on knitted fabrics. No increase is proposed on tyre cord yarn and on glass yarn which go into industrial production, and on wastes.

I, propose to raise the

**STATE BANK OF MYSORE**

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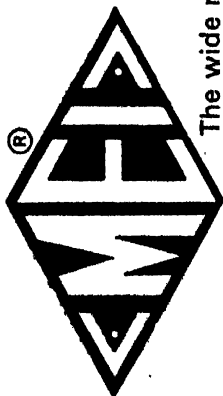
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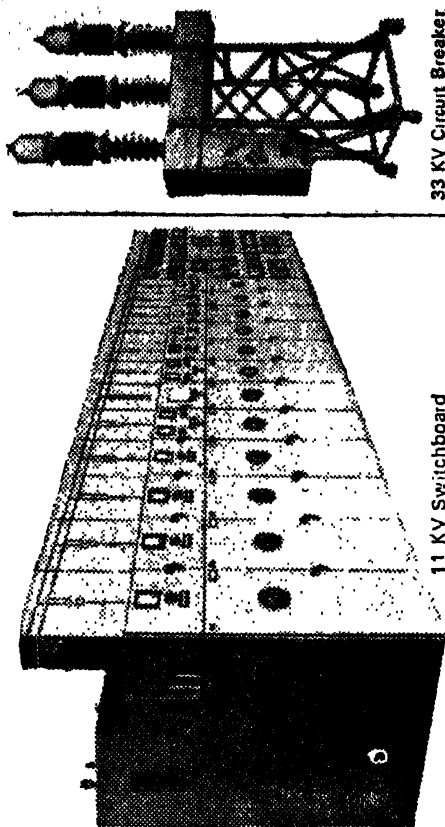
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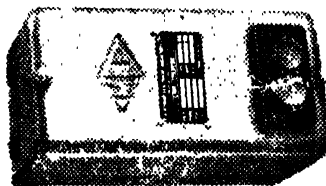
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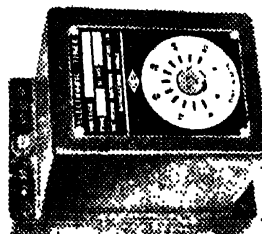


11 KV Switchboard

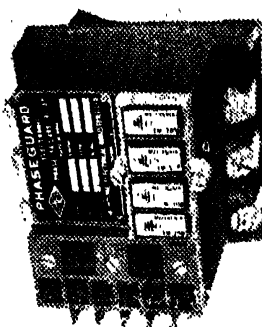
33 KV Circuit Breaker



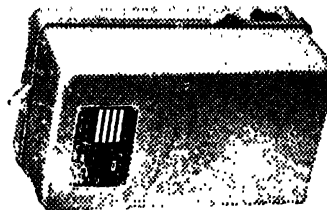
Direct-on-line Starter



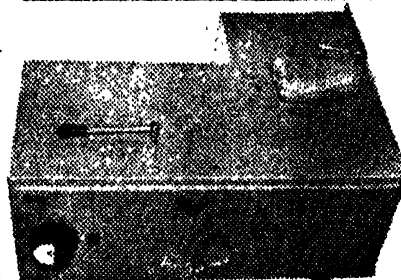
Electronic Timer



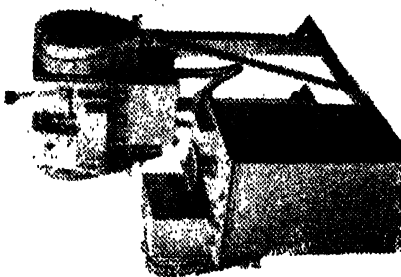
Phaseguard



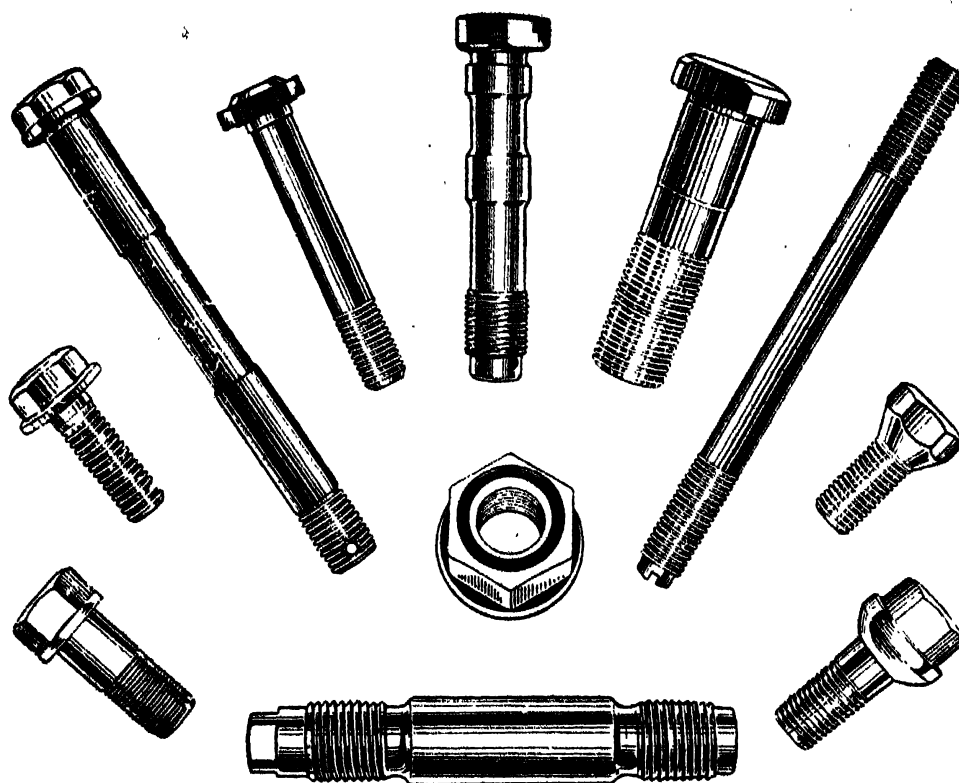
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existing duties on superfine and fine cotton yarns which are used by the composite mills, by powerlooms, and in the hosiery and sewing thread sectors of the cotton textile industry. As a sequel to increase in the rates of duty on cotton yarn I also propose to raise suitably the rates of compounded levy paid by composite mills on cotton yarn and mixed yarn used by them. In order that the increases in yarn duty may not hit the handlooms, the duty on yarn cleared from the mills in the form of straight reel hanks used mostly by the handloom sector is being kept unchanged.

In 1973 government appointed a high powered study team to examine in depth the problems of the handloom industry. This body has observed in its report that powerlooms are in a position to undercut handlooms in their legitimate market, and has recommended that the com-

pounded levy on powerlooms may be fixed at Rs 300 per powerloom per annum irrespective of the number of looms in a unit. The matter has been carefully examined by government and I now propose to increase the compounded levy on powerlooms to Rs 200 per loom per annum on all those units with less than 50 powerlooms each.

There are reports that some mills take undue advantage of existing concessional rates of duty prescribed for clearance of fents and rags. With a view to eliminate this abuse, a two-tier duty structure is proposed to be introduced for cotton fents and rags, the lower level applying to fents and rags cleared up to a prescribed limit, and the higher level, to clearances above that limit. The various proposals on textiles will yield an additional revenue of Rs. 49.10 crores.

Although air conditioners

already carry a duty of 75 per cent *ad valorem*, I propose to raise this level to 100 per cent *ad valorem*. I similarly propose to raise the duty on parts of refrigerating and air conditioning plants and machinery from 100 per cent *ad valorem* to 125 per cent *ad valorem*. Duty on refrigerators, and refrigerating machinery and appliances, as well as air coolers, is however being kept unchanged. Parts of refrigerating machinery for cold storage plants, hospitals and factories also will continue to pay the present concessional duty.

I further propose to raise the basic duty on cosmetics and toilet preparations from the present rate of 30 per cent *ad valorem* to 40 per cent *ad valorem*. Since this item also carries an auxiliary duty of 50 per cent of the effective basic duty there will be a total increase of 15 per cent *ad valorem* in the duty.

Shampoos will also henceforth pay a basic duty of 40 per cent.

Those blessed by fortune to have enough cash and other valuables with them to necessitate the purchase of safes and strong boxes cannot legitimately complain against my next proposal which is to raise the duty on safes, strong boxes and similar articles from 10 per cent *ad valorem* to 20 per cent *ad valorem*. The combined revenue effect of proposals for increase in duty on air conditioners and parts, domestic and toilet requisites and safes, strong boxes and the like will be Rs 7.65 crores.

As a revenue measure, I propose to increase by five per cent the effective duties on synthetic organic dye-stuffs and synthetic organic derivatives, chinaware and porcelainware, and glass and glassware, except laboratory glassware. I also propose to make some

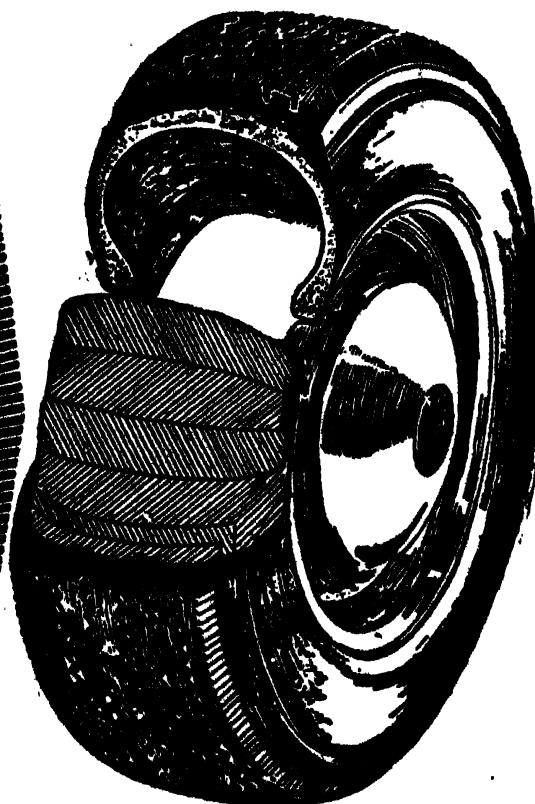
# **HIGH TENACITY SUPER STRONG DCM RAYON TYRE CORD**

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**SHRIRAM RAYONS, Koda (Madras)**



changes in the existing basis for grant of duty concession to small scale manufacturers of chinaware and porcelainware, but these changes will be made effective only from April 1, 1975. My proposals regarding synthetic organic dye-stuffs, glass and glassware and chinaware and porcelainware will yield an additional revenue of Rs 10.20 crores.

I propose to increase the duty on packing and wrapping paper, pulp boards and duplex and triplex boards from 80 paise per kilogram to Rs 1.20 per kilogram. This will yield an additional revenue of Rs 9.80 crores.

I propose to increase the present effective duty on electric wires and cables, excluding those used for telecommunication and high voltage transmission lines, by varying rates ranging between 2½ and five per cent *ad valorem*. I also propose to raise the duty on electric fans marginally, but there will be no increase in the duty on industrial fans. The proposed increases in the duty on electric wires and cables and fans will yield an additional revenue of Rs 4.30 crores.

#### Tariff on films

Rationalisation of the tariff entries and exemption notifications relating to gramophones, record players, tape-recorders, permanent magnets, vehicular tyres, components of motor vehicles, wool tops, concessions for the use of rice bran oil and minor oils in the manufacture of soap, and of cotton-seed oil in the manufacture of vegetable products has been proposed. I also propose to rationalise the tariff for exposed cinematograph films, and to increase the differential between coloured films on the one hand and black and white films on the other. All these measures will yield an additional revenue of Rs 6.84 crores.

To remove doubts about the meaning of the expression "skelp", I propose to add an explanation at the end of Tariff Item 26AA and to vali-

date past levies, assessments and collections of duty in accordance with this explanation.

As there is a substantial difference between the imported cost of graphite electrodes and anodes and the indigenous cost of production, I propose to levy an excise duty of 15 per cent *ad valorem* on graphite electrodes and anodes. This will yield a revenue of Rs 1.50 crores.

I now come to a new concept in central excise taxation. Hitherto the central excise tariff covered only certain specified goods. With a view to widen the coverage of taxable goods and to provide a more dependable information base for future revenue raising exercises, I propose to introduce a new item in the Central Excise Tariff Schedule which, with a few exceptions, will cover all goods produced for sale or other commercial purpose not elsewhere specified in the schedule. Goods covered under this new item will be chargeable to a nominal duty at the rate of one per cent *ad valorem*. While the tariff item will cover the production of all factories as defined in the Factories Act, 1948, I propose for the sake of administrative convenience to exempt the production of those factories which employ not more than 49 workers in the case of power-operated factories, and not more than 99 workers in the case of non-power operated factories.

#### Experimental measure

To further simplify the levy, I also propose to exempt from duty intermediate products and component parts falling within this item produced in a factory and consumed within the same factory for the manufacture of finished goods. No countervailing duty will be levied on imported goods corresponding to this new item. This levy is admittedly an experimental measure. I expect that this measure will yield a revenue of Rs 24.00 crores per annum.

The auxiliary duty of ex-

cise levied under the Finance Act of 1974 valid up to March 31, 1975 is being continued up to 30th of June, 1976. Mainly on account of the increase in the basic duty proposed on some items there will be additional accrual of auxiliary duty also, estimated at Rs 5.34 crores. This amount, however, has been included in the revenue estimates under the respective items already mentioned.

The total effect of all the above proposals relating to central excise will be an additional revenue of Rs 250.47 crores. Of this the union government's share will be Rs 194.81 crores and the states' share Rs 55.66 crores.

#### Import duties

I do not propose any revision of the customs tariff rates. But considering the trend of international prices of non-ferrous metals I propose to increase the countervailing duty on copper by Rs 3,500 per tonne and on zinc by Rs 2,125 per tonne. These changes will yield an additional revenue of Rs 24.50 crores.

The increase in central excise duty on certain items which I have proposed earlier will lead to a consequential increase of Rs 9.55 crores in the collection of countervailing duty on imports.

The auxiliary duties of customs levied under the Finance Act of 1974 is being continued up to June 30, 1976 and the effective rates of this levy remain unchanged.

The various proposals which I have made will yield an increase of Rs 34.05 crores in customs revenue.

The yield for 1975-76 for the centre, taking union excise duties and customs duties together will be Rs 228.86 crores.

Before I conclude I should mention a proposal which I am making to raise resources for the benefit of the states and union territories. The

rate of central sales-tax on inter-state sales of goods is being raised from three per cent to four per cent with a corresponding change in the ceiling prescribed in respect of local sales-tax on goods declared to be of special importance in inter-state trade or commerce. As a result of this proposal being made effective from July 1, 1975, the additional collections for those union territories whose revenues form part of the Consolidated Fund of India will amount to Rs 1.75 crores in the year 1975-76. The states will benefit to the extent of Rs 38.25 crores in 1975-76 through this measure.

To sum up, so far as the union budget is concerned, the various proposals imply, for 1975-76, additional revenue aggregating Rs 239 crores. The budgetary gap of Rs 464 crores, as indicated earlier, will accordingly be scaled down to Rs 225 crores.

The budgetary deficit has thus been kept at a modest level. With the improving prospects for the availability of food, power and fuel, this order of deficit is not likely to accentuate inflationary pressures in the economy.

#### Central sales tax

My major concern in the formulation of this budget has been to stimulate production by stepping up the pace of investment in areas crucial to the healthy growth of the economy. The effectiveness of the measures proposed in achieving the goals that we have set for ourselves will, however, depend in large measure on the willingness of the different sections of the community to contribute their utmost to the common endeavour.

Let us all then, in government, the legislature and outside, rededicate ourselves to this national cause at this juncture and conduct ourselves with that discipline and determination which the occasion demands.

# To help vital Indian industries keep pace with fast-advancing technology...

**Zenith Steel Pipes-Tools Manufacturing Division,  
has formed a technical alliance with ASKO...  
the American Company that's the world leader in  
sophisticated industrial knives and rollers**

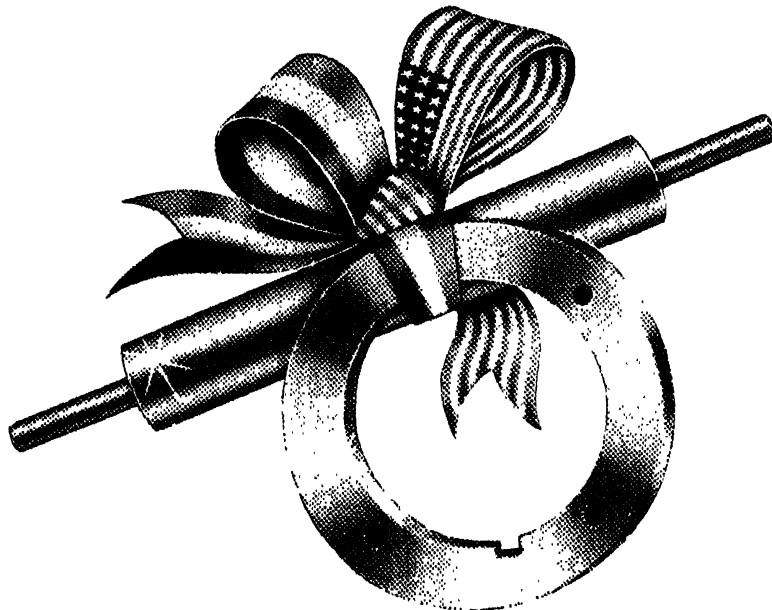
● **ASKO**—The American Shear Knife Co.—have over 40 years expertise—are continually developing newer, better industrial knives and rollers to meet the demands of ever-changing equipment. The benefits of such technological advancements will be passed on to Indian industry through **ZENITH**, the pioneer manufacturers in India of such products.

● **ZENITH** will not only be able to bring their already high quality to match international excellence but also widen the product range considerably...and provide a package deal including sales engineering services to the steel, wood pulp, cold rolling and other industries.

● **ZENITH** will not only bring about import substitution but will also be able to pave the way for exports of industrial knives and rollers, as they did with steel pipes.

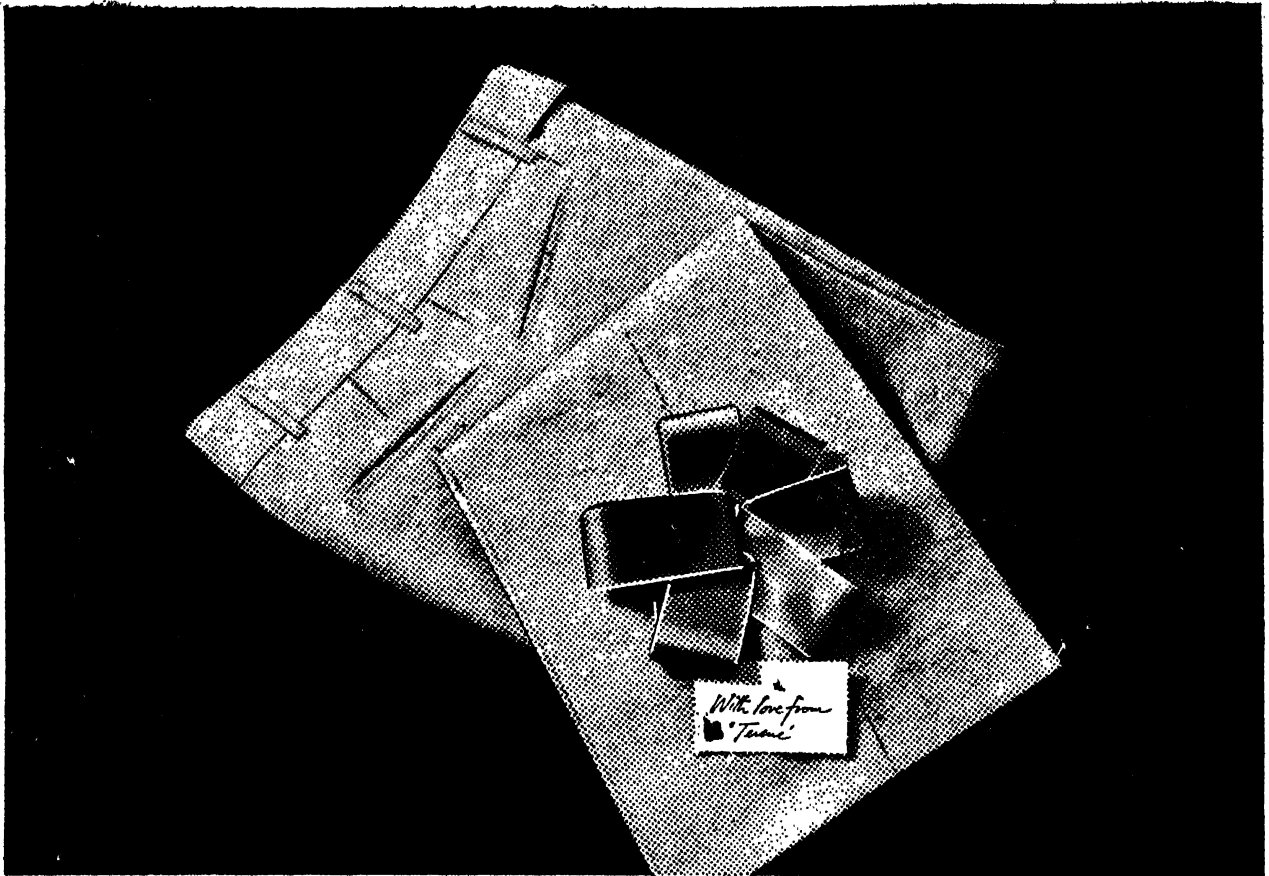
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## Budget at a Glance

(In crores of rupees)

(In crores of rupees)

|                                   | 1974-75<br>Budget | 1974-75<br>Revised | 1975-76<br>Budget |                               | 1974-75<br>Budget | 1974-75<br>Revised | 1975-76<br>Budget |
|-----------------------------------|-------------------|--------------------|-------------------|-------------------------------|-------------------|--------------------|-------------------|
| <b>REVENUE RECEIPTS</b>           |                   |                    |                   | <b>REVENUE DISBURSEMENTS</b>  |                   |                    |                   |
| Tax Revenue                       | 5498              | 6128               | 6552<br>+288*     | General Services              | 1566              | 1538               | 1789              |
| Less—States' Share of Tax Revenue | 1198              | 1224               | 1333<br>+49*      | Defence Services              | 1680              | 1952               | 2036              |
| Net—Centre's Tax Revenue          | 4300              | 4904               | 5219<br>+239*     | Social and Community Services | 451               | 426                | 482               |
| Non-Tax Revenue                   | 1340              | 1581               | 1656              | Economic Services             | 604               | 802                | 956               |
| Total—Centre's Revenue            | 5640              | 6485               | 6875<br>+239*     | Grants-in-aid to States etc.  | 1107              | 1142               | 1228              |
|                                   |                   |                    |                   | Total Revenue Disbursements   | 5408              | 5860               | 6491              |
|                                   |                   |                    |                   | Revenue Surplus               | 232               | 625                | 384<br>+239*      |
| <b>CAPITAL RECEIPTS</b>           |                   |                    |                   | <b>CAPITAL DISBURSEMENTS</b>  |                   |                    |                   |
| Loan Repayments                   | 1080              | 1230               | 1395              | General Services              | 25                | 18                 | 21                |
| Market Loans (Net)                | 498               | 495                | 325               | Defence Services              | 235               | 205                | 238               |
| External Loans (Net)              | 552               | 595                | 613               | Social and Community Services | 64                | 51                 | 61                |
| Other Receipts                    | 969               | 677                | 1096              | Economic Services             | 899               | 1281               | 1213              |
| Total—Capital Receipts            | 3099              | 2997               | 3429              | Loans and Advances            | 2234              | 2692               | 2744              |
| Total Receipts                    | 8739              | 9482               | 10304<br>+239*    | Total—Capital Disbursements   | 3457              | 4247               | 4277              |
| Overall Deficit                   | 126               | 625                | 464<br>—239*      | Total Disbursements           | 8865              | 10107              | 10768             |
|                                   |                   |                    | 225               |                               |                   |                    |                   |

\*effect of Budget proposals.

# EASTERN ECONOMIST

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Weekly  
R. P. Agarwala, Indian c/o The Eastern Economist Ltd.,  
United Commercial Bank Building, Parliament Street,  
New Delhi.  
Same as (3) above.

**Mr V. Balasubramanian,**  
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4. Birla Cotton Spg. & Wvg. Mills Ltd., Delhi.  
5. Sutlej Cotton Mills Ltd, Amritsar.

I, R.P. Agarwala, hereby declare that the particulars given above are true to the best of my knowledge and belief  
Date: 28th February, 1975.

Sd/- R. P. AGARWALA,  
Signature of Publisher.

### Details of Revenue Receipts

### Details of Revenue Disbursements

| (In crores of rupees)                             |                   |                    |                      | (In crores of rupees)                                        |                   |                    |                   |
|---------------------------------------------------|-------------------|--------------------|----------------------|--------------------------------------------------------------|-------------------|--------------------|-------------------|
|                                                   | 1974-75<br>Budget | 1974-75<br>Revised | 1975-76<br>Budget    |                                                              | 1974-75<br>Budget | 1974-75<br>Revised | 1975-76<br>Budget |
| <b>A. Tax Revenue</b>                             |                   |                    |                      | <b>1. General Services</b>                                   | 3246.17           | 3490.11            | 3824.52           |
| Customs                                           | 936.05            | 1300.00            | 1250.00<br>+34.05*   | Organs of State                                              | 56.90             | 62.54              | 84.32             |
| Union Excise Duties                               | 3043.81           | 3184.34            | 3500.44<br>+250.47*  | Fiscal Services                                              | 114.24            | 125.42             | 151.80            |
| Corporation Tax                                   | 661.00            | 713.00             | 770.00<br>+10.50*    | Interest Payments                                            | 975.13            | 1022.34            | 1187.84           |
| Income Tax                                        | 709.00            | 747.00             | 800.00<br>-9.00*     | Administrative Services                                      | 389.09            | 302.37             | 333.43            |
| Estate Duty                                       | 9.00              | 10.00              | 9.25                 | Pensions and Misc.<br>General Services                       | 31.08             | 25.47              | 30.79             |
| Taxes on Wealth                                   | 40.00             | 40.00              | 43.00                | Defence Services (net)                                       | 1679.73           | 1951.97            | 2036.34           |
| Interest Tax                                      | —                 | 25.00              | 60.00                | <b>2. Social &amp; Community<br/>Services</b>                | 450.81            | 426.01             | 482.26            |
| Gift Tax                                          | 4.00              | 5.00               | 4.50                 | <b>3. Economic Services</b>                                  | 603.56            | 801.85             | 956.22            |
| Other Heads                                       | 94.75             | 103.60             | 114.46<br>+1.75      | General Economic<br>Services                                 | 137.22            | 135.91             | 146.54            |
| Gross Tax Revenue                                 | 5497.61           | 6127.94            | 6551.65*<br>+287.77* | Agriculture and Allied<br>Services*                          | 222.31            | 404.18             | 427.30            |
| <b>Less—States' Share of<br/>Taxes and Duties</b> | 1197.99           | 1224.41            | 1332.94<br>+48.92*   | Industry and Minerals                                        | 119.94            | 135.90             | 231.18            |
| Union Excise Duties                               | 698.10            | 702.54             | 774.49<br>+55.66*    | Water & Power Dev-<br>elopment                               | 52.31             | 50.62              | 68.50             |
| Income Tax                                        | 491.26            | 512.32             | 550.11<br>-6.74*     | Transport and Com-<br>munications                            | 71.78             | 75.24              | 82.70             |
| Estate Duty                                       | 8.63              | 9.55               | 8.34                 | <b>4. Grants-in-aid and<br/>Contributions etc.</b>           | 1107.34           | 1142.03            | 1227.93           |
| Net Tax Revenue                                   | 4299.62           | 4903.53            | 5218.71<br>+238.85*  | Grants-in-aid to State<br>and Union Territory<br>Governments | 1046.55           | 1081.50            | 1157.99           |
| <b>B. Non Tax Revenue</b>                         |                   |                    |                      | Aid to other Countries                                       | 43.16             | 44.62              | 40.16             |
| Interest Receipts                                 | 862.16            | 881.80             | 933.21               | Other Grants &<br>Contributions                              | 17.63             | 15.91              | 29.78             |
| Dividends and Profits                             | 190.92            | 195.12             | 196.09               | <b>Total Revenue Dis-<br/>bursements</b>                     | 5407.88           | 5860.00            | 6490.93           |
| Other Non-Tax Re-<br>venue                        | 287.28            | 504.23             | 527.15               |                                                              |                   |                    |                   |
| Total Non-Tax Re-<br>venue                        | 1340.36           | 1581.15            | 1656.45              |                                                              |                   |                    |                   |
| <b>Total Revenue Re-<br/>ceipts</b>               | 5639.98           | 6484.68            | 6875.16<br>+238.85*  |                                                              |                   |                    |                   |

\* effect of Budget proposals.

\*include food subsidy of Rs. 100 crores (1974-75 Budget) and Rs. 295 crores each in 1974-75 Revised and 1975-76 Budget.

## THE VYSYA BANK LIMITED

R.O. Avenue Road, Bangalore-560 002

Chairman: M.V.N. Setty

#### CAPITAL

Authorised & Subscribed

Paid-up

#### RESERVE FUND

DEPOSITS as on 31-12-74

TOTAL RESOURCES as on 31-12-74

Rs.

20,00,000

16,00,000

20,65,000

exceed 20,31,00,000

exceed

25,82,00,000

*With wide range of Banking Services and attractive rates of interest*

**VYSYA BANK ensures SAFETY & GROWTH**

### Details of Capital Receipts

(In crores of rupees)

|                                           | 1974-75<br>Budget | 1974-75<br>Revised | 1975-76<br>Budget |
|-------------------------------------------|-------------------|--------------------|-------------------|
| 1. <b>Market Loans</b>                    | 498.36            | 494.80             | 324.88            |
| Gross Borrowings                          | 700.00            | 696.44*            | 532.00            |
| Less—Repayments                           | 201.64            | 201.64             | 207.12            |
| 2. <b>External Loans</b>                  | 552.47            | 595.03             | 612.69            |
| Gross Borrowings                          | 849.79            | 888.32             | 928.47            |
| Less—Repayments                           | 297.32            | 293.29             | 315.78            |
| 3. <b>Repayment of Loans and Advances</b> | 1080.00           | 1230.00            | 1395.00           |
| State and Union Territory Governments     | 520.00            | 560.00             | 685.00            |
| Others                                    | 560.00            | 670.00             | 710.00            |
| 4. <b>Small Savings</b>                   | 360.35            | 325.40             | 380.40            |
| 5. <b>Provident Funds</b>                 | 118.20            | 176.60             | 150.46            |
| 6. <b>Other Receipts@</b>                 | 489.64            | 176.66             | 564.89            |
| <b>Total—Capital Receipts</b>             | <b>3099.02</b>    | <b>2997.49</b>     | <b>3428.32</b>    |

\*excludes Rs. 100 crores of *ad hoc* treasury bills converted into dated securities.

@ include Rs 340 crores (1974-75 Budget) Rs 372 crores (1974-75 Revised) for food and oil credits and Rs. 230 crores (1975-76 Budget) for oil credits. 1974-75 Revised estimates also takes into account a shortfall of Rs. 130 crores in recoveries from the Food Corporation of India. 1975-76 Budget takes credit for Rs 100 crores of special borrowing from the Reserve Bank of India against blocked deposits under the Additional Emoluments (Compulsory Deposit) Act, 1974 and the Compulsory Deposit (Income Tax Payers) Act, 1974.

### Details of Capital Disbursements

(In crores of Rupees)

|                                                                             | 1974-75<br>Budget | 1974-75<br>Revised | 1975-76<br>Budget |
|-----------------------------------------------------------------------------|-------------------|--------------------|-------------------|
| 1. <b>General Services</b>                                                  | 259.79            | 222.49             | 258.34            |
| Defence Services                                                            | 235.27            | 205.03             | 237.66            |
| Other General Services                                                      | 24.52             | 17.46              | 20.68             |
| 2. <b>Social and Community Services</b>                                     | 63.97             | 51.35              | 61.20             |
| 3. <b>Economic Services</b>                                                 | 899.37            | 1281.38            | 1213.21           |
| General Economic Services                                                   | 77.26             | 25.66              | 68.97             |
| Agriculture and Allied Services*                                            | 20.41             | 299.29             | 158.77            |
| Industry and Minerals                                                       | 342.87            | 488.57             | 570.53            |
| Water and Power Development                                                 | 90.28             | 111.51             | 92.73             |
| Transport and Communications (Other than Railways and Posts and Telegraphs) | 126.19            | 127.97             | 121.74            |
| Railways                                                                    | 227.00            | 213.00             | 182.50            |
| Posts and Telegraphs                                                        | 15.36             | 15.36              | 17.97             |
| 4. <b>Loans and Advances</b>                                                | 2233.91           | 2692.10            | 2743.98           |
| Loans and Advances to State and Union Territory Governments                 | 1040.38           | 1143.43            | 1127.61           |
| Loans for Social and Community Services                                     | 18.52             | 16.23              | 17.66             |
| Loans for Economic Services                                                 | 881.15            | 1156.06            | 1224.54           |
| Advances to Foreign Governments @                                           | 236.76            | 331.84             | 326.67            |
| Other Loans                                                                 | 57.10             | 44.54              | 47.80             |
| <b>Total Capital Disbursements</b>                                          | <b>3457.04</b>    | <b>4247.32</b>     | <b>4276.73</b>    |

\* Include Rs 290 crores (1974-75 Revised) and Rs 140 crores (1975-76 Budget) on account of fertiliser transactions.

@ Include Rs 186 crores (1974-75 Budget), Rs 297 crores (1974-75 Revised) and Rs 280 crores (1975-76 Budget) for technical credits under Trade Agreements.

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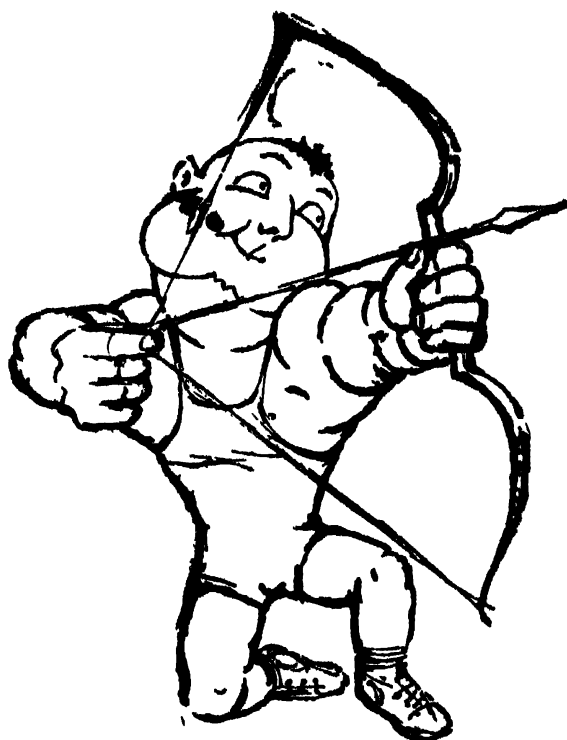
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# Resources Transferred to State and Union Territory Governments

(In crores of rupees)

# Plan Outlay

(In crores of rupees)

|                                                                               | 1974-75<br>Budget | 1974-75<br>Revised | 1975-76<br>Budget |
|-------------------------------------------------------------------------------|-------------------|--------------------|-------------------|
| 1. States' Share of Taxes & Duties                                            | 1198              | 1224               | 1382              |
| Union Excise Duties                                                           | 698               | 702                | 830               |
| Income Tax                                                                    | 491               | 512                | 544               |
| Estate Duty                                                                   | 9                 | 10                 | 8                 |
| 2. Statutory and Other Transfers                                              | 632               | 632                | 662               |
| Grants                                                                        | 528               | 530                | 560               |
| Loans                                                                         | 104               | 102                | 102               |
| 3. Assistance for Development outside Plan                                    | 372               | 429                | 401               |
| Grants                                                                        | 70                | 61                 | 58                |
| Loans                                                                         | 302               | 368                | 343               |
| 4. Assistance for State and Union Territory Plans                             | 813               | 890                | 918*              |
| Grants                                                                        | 247               | 299                | 319               |
| Loans                                                                         | 566               | 591                | 599               |
| 5. Assistance for Central & Centrally Sponsored Plan Schemes                  | 270               | 273                | 304               |
| Grants                                                                        | 202               | 191                | 221               |
| Loans                                                                         | 68                | 82                 | 83                |
| 6. Total Grants and Loans (2+3+4+5)                                           | 2087              | 2224               | 2285              |
| Grants                                                                        | 1047              | 1081               | 1158              |
| Loans                                                                         | 1040              | 1143               | 1127              |
| 7. Less Repayment of Loans and Advances                                       | -520              | -560               | -685              |
| 8. Net resources transferred to State and Union Territory Governments (1+6+7) | 2765              | 2888               | 2982              |

|                                                 | 1974-75 | 1975-76 |
|-------------------------------------------------|---------|---------|
| 1. Central Plan                                 | 2055    | 2558    |
| 2. Central Assistance for State Plans           | 830     | 963     |
| 3. Union Territory Plan provision in the Budget | 81      | 91      |
| 4. Total Plan provision in the Budget           | 2966    | 3612    |
| 5. Extra Budgetary Resources for Central Plan   | 574     | 596     |
| 6. Total Central Plan (1+5)                     | 2629    | 3154    |
| 7. Central Plan Provision in the Budget         |         |         |
| General Services                                | 8       | 9       |
| Social and Community Services                   | 352     | 355     |
| Economic Services :                             |         |         |
| General Economic Services                       | 38      | 49      |
| Agriculture and Allied Services                 | 216     | 227@    |
| Industry and Minerals                           | 729     | 1221    |
| Water and Power Development                     | 99      | 117*    |
| Transport and Communications                    | 613     | 580     |
|                                                 | 2055    | 2558    |

N.B. The union territory included in the above statement are those which have legislatures.

\* In addition, in the Budget for 1975-76, Rs 66 crores are provided for Plan Outlay of union territories without Legislature, Rs 10 crores for Plan Schemes of the North Eastern Council and Rs 60 crores for Rural Electrification Corporation. Thus, the total provision in the Budget for 1975-76 for assistance towards state and union territory Plans as well as those of the North Eastern Council amounts to Rs 1054 crores.

@ excludes Rs 43 crores for agricultural cooperatives and cooperative fertilizer factories provided under General Economic Services.

\*excludes Rs 40 crores for Rural Electrification Corporation provided as part of central assistance for state Plans.



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## Budget Estimates : 1975-76

Receipts next year net of States' share of taxes and duties are estimated at Rs. 10543 crores and expenditure at Rs. 10768 crores leaving a deficit of Rs. 225 crores.

Gross Tax Revenue including the effect of Budget proposals is estimated at Rs. 6840 crores. The Budget proposals are expected to yield Rs. 288 crores. This is made up of Rs. 250 crores under Union Excise Duties, Rs. 34 crores under Customs, Rs. 11 crores under Corporation Tax and Rs. 2 crores under Central Sales Tax, reduced by Rs. 9 crores under Income Tax.

The States' share of taxes and duties taking into account the effect of Budget proposals will be Rs. 1382 crores.

Thus, the net Tax Revenue of the Central Government will be Rs. 5458 crores comprising Union Excise Duties Rs. 2921 crores, Customs Rs. 1284 crores, Corporation Tax Rs. 781 crores, Income Tax Rs. 247 crores, Interest Tax Rs. 60 crores, and other Taxes and Duties Rs. 165 crores.

Non tax revenue including interest and dividend receipts will be Rs. 1656 crores. Market loans are estimated at Rs. 325 crores, External loans Rs. 613 crores and Loan Repayments Rs. 1395 crores. Small Savings and Provident Fund collections together are placed at Rs. 531 crores. Other receipts are estimated at Rs. 565 crores.

Total estimated expenditure of Rs. 10768 crores comprises Development outlay of Rs. 5868 crores (55 per cent), Defence outlay of Rs. 2274 crores, Interest payments of Rs. 1188 crores, Statutory and other transfers to State and Union Territory Governments of Rs. 662 crores and other expenditure of Rs. 776 crores.

Development outlay of Rs. 5868 crores comprises Rs. 3674 crores on Economic Services, Rs. 562 crores on Social and Community Services and Rs. 1623 crores on Transfer to State and Union Territory Governments for development purposes as also Rs. 9 crores of Plan expenditure included under General Services.

Other expenditure of Rs. 776 crores next year constitutes only seven per cent of the total expenditure of Rs. 10768 crores. This item comprises Organs of State including Audit (Rs. 84 crores), Fiscal Services including tax collection (Rs. 152 crores), Police (Rs. 175 crores), Aid to other Countries (Rs. 87 crores), Miscellaneous Loans (Rs. 48 crores), Pensions and other Retirement benefits (Rs. 22 crores), Public Works (Rs. 33 crores) and other General Services (Rs. 175 crores).

Resources transferred to State and Union Territory Governments (Statement VI) include Rs. 1382 crores of States' share of taxes and duties, Rs. 1623 crores for development purposes and Rs. 662 crores as statutory and other grants and loans.

Plan outlay of Rs. 3612 crores (Statement VII) is inclusive of Central Plan outlay (Rs. 2558 crores), Central Assistance for State Plans (Rs. 963 crores) and Union Territory Plan provision (Rs. 91 crores). The Central Plan provision includes substantial allocations to Agriculture (Rs. 270 crores), Industry and Minerals (Rs. 1221 crores), Power (Rs. 140 crores including Rs. 40 crores for the Rural Electrification Corporation programmes in the State sector), Transport and Communications (Rs. 580 crores) and Social and Community Services (Rs. 355 crores).

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**J.K. ORGANISATION**

**SYNTHESIS OF NATIONAL  
TALENT AND  
ENTREPRENEURSHIP**

# Finance Bill 1975 : proposals explained

THE TEXT of the official memorandum explaining the provisions of the Finance Bill is given below:—

## Provisions Relating to Direct Taxes

The provisions in the Finance Bill, 1975 in the sphere of direct taxes relate to the following matters:

(i) Prescribing the rates of income-tax (including surcharge thereon) on incomes liable to tax for the assessment year 1975-76; the rates at which income-tax will be deductible at source during 1975-76 from interest (including interest on securities), dividends, salaries, insurance commission, winnings from lotteries and cross-word puzzles and other categories of income liable to such deduction under the Income-tax Act; and the rates for computation of "advance tax" and charging of income-tax on current incomes in certain cases for the financial year 1975-76.

(ii) Amendment of the Income-tax Act, 1961 with a view to raising additional resources; providing greater tax incentive for savings and investments providing for tax relief in certain cases; and a few other matters.

(iii) Amendment of the Wealth-tax Act, 1957 with a view to providing greater incentive for investment in priority industries and making a few other provisions.

(iv) Amendment of the Gift-tax Act, 1958 to remove an existing anomaly.

(v) Amendment of the Finance Act, 1974 with a view to extending the period for continuance of development rebate in respect of ships already on order.

2. The Bill broadly follows the principle (adopted since 1967) that changes in the rates of tax as also other

provisions of tax laws should ordinarily be made operative prospectively in relation to current incomes and not in relation to incomes of the past year. The substance of the main provisions in the Bill relating to direct taxes is explained in the following paragraphs.

## Income-Tax

### I. RATES OF INCOME-TAX IN RESPECT OF INCOMES LIABLE TO TAX FOR THE ASSESSMENT YEAR 1975-76.

3. In respect of incomes of all categories of taxpayers (corporate as well as non-corporate) liable to tax for the assessment year 1975-76, the rates of income-tax under the Bill are the same as were laid down in Part III of the First Schedule to the Finance Act, 1974 for purposes of computation of "advance tax", deduction of tax at source from "Salaries" and retirement annuities payable to partners of registered firms engaged in specified professions and computation of tax payable in certain special cases during the financial year 1974-75. The rates of income-tax (including surcharge thereon) for the assessment year 1975-76 in the case of all categories of taxpayers have been specified in Part I of the First Schedule to the Bill.

### II. RATES FOR DEDUCTION OF TAX AT SOURCE DURING THE FINANCIAL YEAR 1975-76 FROM INCOMES OTHER THAN 'SALARIES' AND RETIREMENT ANNUITIES.

4. The rates for deduction of tax at source from incomes other than "Salaries" (i.e., interest on securities, other categories of interest, dividends, insurance commission, winnings from lotteries and cross-word puzzles, and non-salary income of non-resi-

dents) have been specified in Part II of the First Schedule to the Bill. These rates are the same as were prescribed for the purpose in the Finance Act, 1974.

(Long-term capital gains are charged to tax at concessional rates in the case of all categories of taxpayers. Under the existing law, income-tax is, however, deductible from such gains derived by foreign companies at the rates applicable to their ordinary income. A specific provision is proposed to be made in section 195 of the Income-tax Act to secure that income-tax in the case of foreign companies is deducted at source from long-term capital gains at the rates at which such gains are actually chargeable to tax in their hands. This provision has been explained in detail in paragraph 42.)

### III. RATES FOR DEDUCTION OF TAX AT SOURCE FROM 'SALARIES', COMPUTATION OF 'ADVANCE TAX' AND CHARGING OF INCOME-TAX IN SPECIAL CASES DURING THE FINANCIAL YEAR 1975-76.

5. The rates from deduction of tax at source from "Salaries" in the case of individuals during the financial year 1975-76, and also for computation of "advance tax" payable during that year in the case of all categories of taxpayers, have been specified in Part III of the First Schedule to the Bill. These rates are also applicable for deduction of tax at source during 1975-76 from retirement annuities payable to partners of registered firms engaged in certain professions (chartered accountants, solicitors, lawyers, etc.) and for charging income-tax during 1975-76 on current incomes in special cases where accelerated assessments have to be made, e.g., provisional assessment of

shipping profits arising in India to non-residents, assessment of persons leaving India for good during the financial year 1975-76, assessment of persons who are likely to transfer property to avoid tax, etc.

6. The rates specified in Part III of the First Schedule to the Bill in case of all non-corporate taxpayers are the same as those specified in Part I of the First Schedule for the assessment of incomes liable to tax for the assessment year 1975-76.

Under the rate schedule specified in the Finance Act, 1974 for purposes of computation of "advance tax" payable during the financial year 1974-75 in the case of companies, the basic rate of income-tax applicable to closely-held domestic companies which are industrial companies was fixed at 55 per cent of the first Rs 2 lakhs of its total income and 60 per cent on the balance. In other words, in the case of such companies, the concessional rate 55 per cent is applicable to the first Rs 2 lakhs of income even in cases where the total income exceeds that amount. Under the corresponding rate schedule in Part III of the First Schedule to the Bill, the higher rate of 60 per cent will be applicable on the entire income of such companies in cases where the taxable income exceeds Rs 2 lakhs. However, where the total income of such companies exceeds Rs 2 lakhs by a small amount, the income-tax payable will not exceed the aggregate of tax payable on an income of Rs 2 lakhs plus 80 per cent of the balance. The rates of income-tax (including surcharge) applicable in the case of other categories of companies for the purpose of computation of "advance tax" payable during the financial year 1975-76 are the same as those specified in Part I of the First Schedule for the assessment of incomes liable



to tax for the assessment year 1975-76.

(Clause 2 and the First Schedule)

#### IV. PROPOSED AMENDMENTS TO THE INCOME-TAX ACT

7. **Tax treatment of income derived from businesses of live-stock breeding or poultry or dairy farming.**—Under the existing provisions of the Income-tax Act, income derived from a business of livestock breeding, or poultry or dairy farming is completely exempt from tax. The exemption from tax of such income is not in keeping with the principle of taxing equally persons with equal capacity to pay. This exemption also enables tax evaders to camouflage their taxable income as income derived from these sources and thus helps proliferation of black money. The Bill seeks to restrict exemption in respect of income from live-stock breeding, or dairy or poultry farming to an amount of Rs 10,000 in a year.

8. The proposed change

will take effect from 1st April, 1976 and will accordingly apply in relation to the assessment year 1976-77 and subsequent years.

(Clauses 3 (e) 13, 24, (2) (b) and (c))

9. **Deduction in respect of interest paid by non-banking non-financial companies on public deposits.**—As a result of the general policy of credit restraint and enforcement of selective control measures by the Reserve Bank of India, non-banking non-financial companies have been increasingly resorting to acceptance of deposits from the public to meet their financial requirements. The levy of interest-tax under the Interest-tax Act, 1974 on the gross amount of interest received by scheduled banks on loans and advances made in India has had the effect of increasing, on an average, the cost of borrowings from scheduled banks by about one per cent. The levy of this tax has, therefore, made the acceptance of deposits by non-banking non-financial companies from

the public all the more attractive. In order to ensure that the effectiveness of the monetary policy is not blurred by unrestricted growth of deposits in the non-banking sector, the Bill seeks to provide that 15 per cent of the interest paid by non-banking non-financial companies on deposits received from the public will be disallowed in computing their taxable income.

10. For the purpose of the new provision, moneys received by the company from the central government or any state government or any local authority, as also amounts repayment of which is guaranteed by the central government or a state government will not be regarded as deposits. Moneys borrowed from foreign sources, banking companies, co-operative banks and specified financial institutions and bodies will also not be regarded as deposits. The central government is being empowered to add to the list of such institutions or bodies by notification in the Official Gazette. Inter-corporate borrowings, security deposits made by employees, amounts received by way of security or advance from purchasing agents, selling agents, etc. and advances received against orders for the supply of goods for the rendering of services will not be treated as deposits. Likewise, subscriptions to shares, stocks, bonds or debentures pending allotment of such shares, stocks, bonds or debentures as well as calls in advance on shares will not be regarded as deposits.

11. The proposed amendment will take effect from 1st April, 1976 and will accordingly apply in relation to the assessment year 1976-77 and subsequent years.

(Clauses 6(b) and 23)

#### V. MEASURES FOR PROMOTING SAVINGS AND INVESTMENT

12. **Tax holiday.**—Section 80J of the Income-tax Act provides for a "tax-holiday" concession in respect of profits derived by a taxpayer from an industrial under-

taking (including a cold storage plant) newly set up in India. The concession is also available in relation to profits derived by an Indian company from the business of an approved hotel satisfying certain conditions or from plying any ship. The tax holiday concession consists in the exemption from tax of the profits up to six per cent per annum of the capital employed in the undertaking, hotel or ship for five successive assessment years commencing from the assessment year relevant to the accounting year in which the undertaking goes into production or the hotel starts functioning or the ship is first put to use. In the case of industrial undertakings owned by co-operative societies, the period of the tax holiday is seven years. Any deficiency in the six per cent return of capital during the tax holiday period is allowed to be carried forward and deducted from the profits of subsequent years up to a period of eight years from the initial year.

13. Under section 80K of the Income-tax Act, dividends paid by a company out of tax holiday profits derived from a new industrial undertaking or hotel or ship are completely exempt from income-tax in the hands of the shareholders.

14. Under the existing law, in the case of industrial undertakings (including cold storage plants), the tax holiday concession will be available only if the undertaking goes into production or commences operation at any time before 1st April, 1976. In the case of a ship, the concession will apply if the ship is brought into use at any time prior to that date. There is, however, no time limit in the case of a hotel business run by an Indian company.

15. The Bill seeks to extend the concession in respect of profits derived by taxpayers from new industrial undertakings (including cold storage plants) for another period of 5 years. Accordingly, new industrial undertakings going into production or starting operation of cold storage

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In today's context, Century Rayon's contribution is significant, by providing employment to over 6,000 workers directly, and supporting an entire township dependent on it.

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What would you say for a record of more than sixteen years of uninterrupted production, without losing a single manhour due to strike or strife? Relations with the employees are exemplary because of a direct, frank and honest rapport with them across the table, without external intervention.

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### HOLDING THE PRICE-LINE AND ENSURING FAIR DISTRIBUTION.

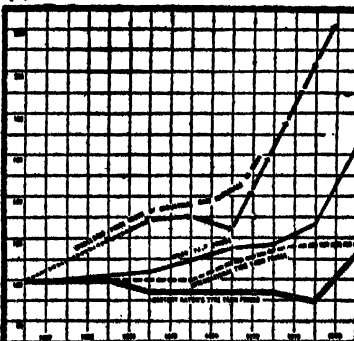
#### (1) RAYON FILAMENT YARN.

| Domestic and International Prices, Rs./kg. |                        |                      | Century Rayon's Prices, Rs./kg. |                                          |
|--------------------------------------------|------------------------|----------------------|---------------------------------|------------------------------------------|
| Domestic Market Prices*                    | U.S.A. Domestic Prices | International Prices | To Actual Users                 | Concessional Prices to Foreign Exporters |
| AROUND 30.00                               | 21.14                  | 21.36                | 14.22                           | 10.87                                    |

\*Exclusive of Excise duty

Very rigidly adhering to the Voluntary agreement between Viscose Rayon Spinners and Weavers, Century Rayon is selling approximately 60% of its production directly to Actual Users at the low price of Rs. 14.22 per kg. and an additional 20% directly to exporters of Rayon Fabrics, at a substantially low price of Rs. 10.87 per kg.

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Century Rayon has achieved the twin objectives of maintaining the price of Tyre Cord below the international level and supplying directly to Actual Users.

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CENTURY CHEMICALS

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plants before 1st April, 1981 will qualify for the tax holiday concession. The Bill also seeks to provide that the tax holiday concession in the case of approved hotels will be available only in cases where the hotel starts functioning before 1st April, 1981.

16. The provision relating to exemption of dividends paid by companies out of their tax holiday profits has been found to be difficult to administer. This is because any change in the quantum of income of the company distributing profits requires modification of assessments of all shareholders who may be assessed to tax in different places in different charges. The Bill, accordingly, seeks to withdraw the tax exemption in relation to dividends which may be distributed out of profits derived from new industrial undertakings, hotels and ships which go into production or start functioning or are put to use after 1st March, 1976. In order to compensate shareholders for the loss of exemption in

respect of such dividends, the Bill seeks to increase the quantum of tax holiday profits in the case of companies from six per cent to 7.5 per cent per annum of the capital employed in the new industrial undertaking, ship or hotel.

17. The Bill also seeks to make the following modifications in the tax holiday provisions :

(i) Under the existing provision, the concession is not available in the case of a new industrial undertaking if it is formed by the transfer to a new business of a building (not being a building taken on rent or lease) or machinery or plant previously used for any purpose. However, the transfer of building, machinery or plant previously used for any purpose to the new business to the extent of 20 per cent of the total value of such assets used in the business, does not

deprive the undertaking of the tax benefit. Under the Bill, the tax benefit will not be denied in cases where the new industrial undertaking is set up in an old building belonging to the taxpayer. The value of the old building will not, however, be taken into account in computing the capital employed in the industrial undertaking. It is further provided that reconditioned machinery or plant imported from abroad will be regarded as new for the purposes of the relevant provision.

(ii) In a case where the goods held for the purpose of the business of the industrial undertaking or the hotel or the operation of ships are transferred to any other business carried on by the taxpayer, or *vice versa*, and the con-

sideration for such transfer is, in either case, not recorded in the accounts of the industrial undertaking or the hotel or the ship at the market value, the profits and gains of the business of the industrial undertaking or the hotel or the operation of ships will be computed as if the transfer had been made at the market value of such goods. In the case of exceptional difficulty, the Income-tax Officer will be empowered to compute the profits and gains of the industrial undertaking or the hotel or the ship on any other reasonable basis.

(iii) The Bill also provides that where because of close connection between the taxpayer carrying on the business of the industrial undertaking or the hotel

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or the operation of the ship and any other person or for any other reason, more than ordinary profits accrue to the business of the industrial undertaking or the hotel or the operation of the ship. the Income-tax Officer will have the power to determine the reasonable profits that could be attributed to the industrial undertaking or the hotel or the ship for the purpose of determining the tax holiday profits.

18. In the case of taxpayers other than companies and co-operative societies (which are statutorily required to get their accounts audited), the tax holiday concession in respect of profits derived from new industrial undertakings will not be available unless the accounts of the industrial undertaking are audited by a chartered accountant or other qualified accountant and the taxpayer furnishes along with his return of income, a report of audit in a form to be prescribed in the Income-tax Rules.

(Clauses 12 and 14)

18. Tax treatment of inter-corporate dividends.—Under the existing law, dividends derived by companies (including foreign companies) from domestic companies are taxed on a concessional basis. Where the company receiving dividends is a foreign company, a deduction in an amount equal to 65 per cent of the dividend income is allowed in computing taxable income. Where the recipient company is a domestic company, the deduction allowed is equal to 60 per cent of such dividends. The remainder of the dividend income, after allowing the deduction as aforesaid, is subjected to tax at the rate applicable to the total income of the company. As a result, the effective incidence of income

tax on the dividend income of a company is as under:

(a) where the recipient is a foreign company 25.725 per cent

(b) where the recipient is a domestic company—

(i) in the case of a widely-held company 23.1 per cent

(ii) in the case of a closely-held company which is not an industrial company 27.3 per cent

Where the recipient is a closely-held industrial company, the effective rate of tax will depend upon whether or not its income exceeds Rs 2 lakhs.

19. In order to encourage investment of corporate savings in high priority industries, the Bill seeks to provide for complete exemption of dividends received by domestic companies from companies formed and registered under the Companies Acts, 1956 after 28th February, 1975 and engaged exclusively or almost exclusively in the manufacture or production of fertilisers; pesticides (basic pestidal chemicals and formulations prepared therefrom by the manufacturing company itself); paper, pulp and newsprint; and cement.

This amendment will take effect from 1st April, 1976 and will, accordingly, apply in relation to the assessment year 1976-77 and subsequent years.

(Clause 15)

20. Inclusion of 'Pesticides' in the Ninth Schedule.—Under the existing law, initial depreciation in an amount equal to 20 per cent of the actual cost of machinery or plant installed by a taxpayer for the purposes of business of generation or distribution of electricity or any other form of power or of construction, manufacture or production of the articles or things specified in the list in Ninth Schedule to the Income-tax Act is allowed as deduction in the year in which such machinery or plant is installed by the taxpayer. The deduction is also admissible in respect of new ships and aircraft

acquired by a taxpayer who is engaged in the business of operation of ships or aircraft. Machinery or plant installed in small scale industrial undertakings for the purpose of business of manufacture or production of any articles or things also qualifies for this allowance.

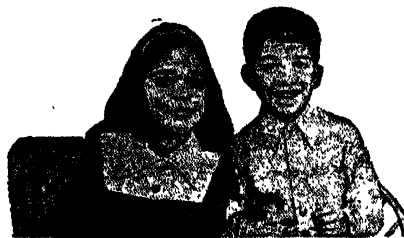
21. The Bill seeks to add "Pesticides" to the list in the Ninth Schedule to the Income-tax Act with effect from 1st April, 1976. The effect of this amendment will be that machinery or plant installed for the purpose of business of manufacture or production of pesticides will also qualify for initial depreciation allowance for the assessment year 1976-77 and subsequent years. The concession will also be available in respect of machinery or plant used for preparing formulations of pesticides in cases where the basic pesticidal chemicals from which these formulations are prepared are manufactured by taxpayer himself.

(Clause 22)

22. Deduction in respect of

long-term savings through specified media.—Under an existing provision of the Income-tax Act, tax relief is allowed in respect of long-term savings effected by certain categories of taxpayers out of their taxable income. In the case of an individual long-term savings through life insurance or deferred annuity policies (without cash option on the life of the individual) his spouse or child; certain provident funds and superannuation funds; Unit-linked Insurance Plan and 10-Year and 15-Year Cumulative Time Deposit Accounts qualify for tax relief. In the case of Hindu undivided families, long-term savings effected through insurance policies on the life of any member of the family qualify for tax relief. In the case of taxpayer being an association of persons or body of individuals consisting only of husband and wife governed by the system of community of property in force in the union territories of Dadra and Nagar Haveli and Goa, Daman, and Diu, long-term savings through

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23. With a view to providing a further incentive for effecting long-term savings, the quantum of the deduction in respect of long-term savings is proposed to be increased so as to allow a deduction of the whole of the first Rs 4,000 of the qualifying savings plus 50 per cent of the next Rs 6,000 plus 40 per cent of the balance.

24. Changes set forth in the preceding paragraphs will take effect from 1st April, 1976 and will, accordingly, apply for the assessment year 1976-77 and subsequent years.

(Clause 10)

### Other Tax Concessions

25. **Extension of tax concession to the book publishing industry**—Under section 80QQ of the Income-tax Act, any person carrying on a business of printing and publication of books, or only publication of books without the activity of printing, is entitled to a deduction in the computation of his taxable income in an amount equal to 20 per cent of the profits from such business. The deduction is currently available for five assessment years ending with the assessment year 1975-76. With a view to providing continued encouragement to this industry in India, it is proposed to extend this tax concession for a further period of 5 assess-

ment years, i.e., up to the assessment year 1980-81.

(Clause 16)

26. **Exemption in retrenchment compensation paid to workers**—Under the existing provisions of the Income-tax Act, retrenchment compensation received by workmen is chargeable to income-tax. However, in recognition of the fact that such compensation is received over and above the normal salary income of the year, the Income-tax Act provides, for the taxation of such compensation on a concessional basis. As retrenchment compensation is paid to workmen to enable them to tide over their period of unemployment, the payment of income-tax on such compensation, albeit on concessional basis, is likely to add to their hardship. With a view to removing this hardship, the Bill seeks to make a provision in the Income-tax Act for the exemption of retrenchment compensation received by a workman under the Industrial Disputes Act, 1947 or under any other Act or under any rule, order or notification issued under any law, as also retrenchment compensation received by a workman under any award, contract of service or otherwise. The exemption under the proposed provision will be limited to the amount calculated in accordance with the provisions of section 25F (b) of the Industrial Disputes Act, 1947, or Rs 20,000, whichever is less.

27. Section 25FF of the Industrial Disputes Act provides for payment of compensation to a workman at the time of the transfer (whether by agreement or operation of law) of the ownership or the management of the undertaking in which he is employed, in certain circumstances. Under the provisions of section 25FFF of that Act, a workman is also entitled to receive compensation at the time of the closing down of the undertaking in which he is employed. Compensation received by a workman in such cases

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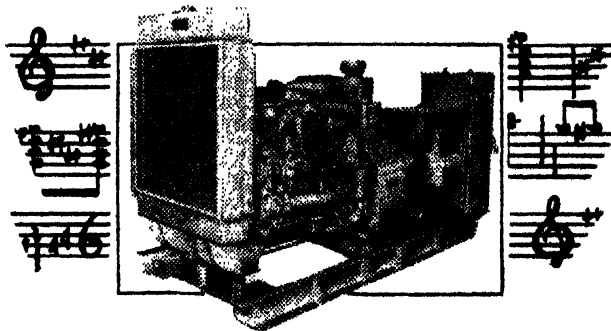
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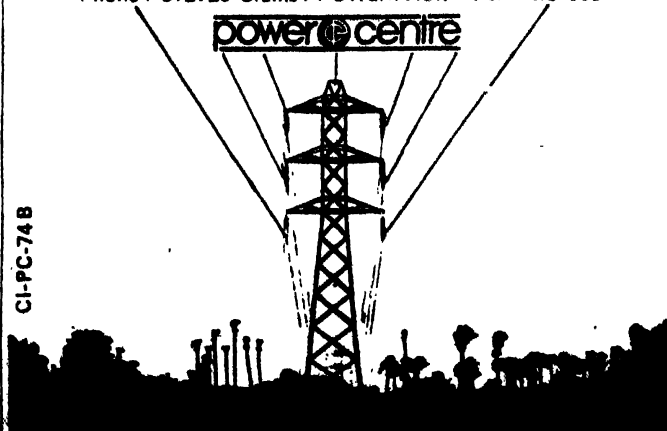
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(whether under the provisions of the aforesaid Act or otherwise) will also be exempt from tax to the same extent as compensation received on retrenchment.

28. The proposed provision will take effect from 1st April, 1976 and will accordingly apply in relation to the assessment year 1976-77 and subsequent years.

((Clause 3(b) & 24(2)(a))

29. **Deduction in respect of expenses on higher education in certain cases.**—With a view to providing some tax relief to middle class families who incur expenditure on higher education of their dependant children, the Bill seeks to make a provision in the Income-tax Act for allowing a deduction in respect of such expenditure. The deduction will be allowed only in the case of Indian citizens whose "gross total income" does not exceed Rs 12,000. Where the child of the taxpayer is

studying for a degree or post-graduate course in medicine (including surgery and obstetrics) architecture, engineering or technology, a deduction of Rs 1,000 will be allowed in computing the taxable income of the taxpayer. Where the child is studying for a diploma course in these subjects or for any other degree or post-graduate course, the taxpayer will be allowed a deduction of Rs 500. In cases where the taxpayer has incurred expenditure on the education of more than two children, the deduction under the proposed provision will be allowed only with reference to two such children as may be chosen by him.

30. The proposed provision will take effect from 1st April 1976 and will accordingly apply in relation to the assessment year 1976-77 and subsequent years.

(Clause 11)

31. **Tax relief in respect of**

**remuneration received from foreign employers by Indian technicians etc.**—At present Indian technicians, etc. who work for a short period during a financial year with a foreign government or a foreign enterprise are liable to Indian tax if they remain "resident in India" for tax purposes in that year, on the whole of the remuneration received by them from the foreign employer, without any allowance in respect of expenditure incurred by them out of such remuneration for meeting higher living cost and other essential expenditure in foreign countries. To relieve this hardship, the Bill seeks to make a provision in the Income-tax Act for allowing a deduction in the computation of the taxable income, of 50 per cent of the remuneration received by them from a foreign government or a foreign enterprise or any association or body established outside India.

In the case of the central or state government employees, this tax concession will be available in cases where the service outside India is sponsored by the central government and in the case of others, the tax concession will be available only if the person concerned is a "technician" and his contract of service with the foreign employer is approved by the central government or by any other authority which may be prescribed in this behalf. For the purposes of this provision, a person will be regarded as a "technician" if he possesses specialised knowledge and experience in specified fields or such other fields as may be prescribed in this behalf, and is employed by the foreign employer in a capacity in which such specialised knowledge and experience are actually utilised. In cases where the Indian deputationist renders continuous service abroad for more than thirty-six months, the remuneration received by him for any period of service after the expiry of the said thirty-six months, will not qualify for

deduction under the proposed provision.

The new provision will take effect from 1st April, 1976 and will accordingly apply in relation to the assessment year 1975-76 and subsequent years.

(Clause 17)

33. **Increase in the ceiling limit in respect of house rent allowance exempt from income tax.**—Section 10(13A) of the Income-tax Act exempts from income-tax, subject to a ceiling limit of Rs 300 per month, any allowance specifically granted to an employee by his employer to meet expenditure actually incurred on payment of rent for residential accommodation occupied by the employee. The exemption in individual cases is restricted to the amount calculated in accordance with rule 2A of the Income-tax Rules. In pursuance of the recommendation made by the Third Central Pay Commission, the ceiling limit in respect of house rent allowance payable to government employees has been raised from Rs 300 per month to Rs 400 per month. As a logical corollary to this, the ceiling limit of Rs 300 per month laid down in section 10(13A) of the Income-tax Act is proposed to be raised to Rs 400 per month.

34. The proposed amendment will take effect from 1st April, 1975 and will accordingly apply in relation to the assessment year 1975-76 and subsequent years.

(Clause 3(c))

35. **Liberalisation of the exemption in respect of the value of travel concession or assistance received by Indian citizens.**—Section 10(5) of the Income-tax Act exempts from tax the value of any travel concession or assistance received by an Indian citizen from his employer for himself, his spouse and children in connection with his proceeding to any place in India on leave or after retirement or termination of his service. Where the person proceeds to his home district in India, the

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entire amount received from the employer is exempt from tax.

In cases where the person goes to any other place in India, the exemption from tax is available only to the extent of the amount which he would have received in connection with his proceeding to his home district in India. In pursuance of the recommendation made by the Third Central Pay Commission, the central government has modified the relevant rules applicable to its employees by allowing them to avail, once in a block of four years, leave travel concession for journeys to any place in India.

As a logical sequel to this decision, it is proposed to make a provision in the Income-tax Act empowering the Central Board of Direct Taxes to frame rules laying down the cases in which and the circumstances in which the entire amount of travel concession or assistance received by salaried taxpayers for journeys to a place other than their home district will also be exempted from income tax. The intention is that the proposed rules will be broadly on the lines of the conditions laid down by the Central Government for the grant of leave travel concession to its employees.

36. In pursuance of the recommendation made by the Third Central Pay Commission, the central government has also enlarged the concept of "family" for the purpose of the leave travel concession granted to its employees. In line with this liberalisation, it is proposed to provide that the exemption under section 10(5) of the Income-tax Act in respect of the value of the travel concession or assistance received by an employee will also be available in respect of journeys performed by the parents, brothers and sisters of the employee, living with and dependent on him.

37. The proposed amendment will take effect from 1st April 1975 and will accordingly apply in relation to the assess-

ment year 1975-76 and subsequent years.

(Clause 3(a))

38. Modification of the provision relating to the grant of development allowance for tea industry.—The tea industry is entitled to a deduction, in the computation of the taxable profits, of a development allowance at a specified percentage of the actual cost of planting or replanting tea bushes.

Under the existing provision, this tax concession is allowed only in respect of tea bushes planted on land owned by the taxpayer. It has been represented that very often the land on which tea bushes are planted is not owned by the taxpayer but is held by him as a leaseholder in perpetuity from the state government.

As it will not be justifiable to deny this tax concession on the technical consideration that the land on which tea bushes have been planted is not owned by the taxpayer, but is held on lease, it is proposed to make a retrospective amendment in the law from 1st April, 1965 that is, the date from which this tax concession was introduced in the Income-tax Act, to secure that a taxpayer who carries on the business of growing and manufacturing tea in India will be entitled to claim development allowance even in respect of tea bushes planted on land in respect of which he holds any lease or other right of occupancy.

39. Under the existing law, the tax concession by way of development allowance is withdrawn, *inter alia* in cases where the land on which tea bushes have been planted is sold or otherwise transferred by the taxpayer within a specified period. It is proposed to provide that development allowance granted to the taxpayer will be similarly withdrawn in cases where the leasehold or other right of occupancy in respect of the land on which tea bushes

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have been planted is transferred by the taxpayer within the specified period.

(Clauses 5 and 24(1))

### Other Amendments

**40. Relaxation of provision relating to taxation of capital gains on national basis in certain cases.**—Section 52(2) of the Income-tax Act provides that if, in the opinion of the Income-tax Officer, the fair market value of a capital asset as on the date of its transfer exceeds the full value of the consideration as declared by the taxpayer, by an amount not less than 15 per cent. of such declared consideration, the capital gains in respect of such asset shall be computed with reference to its fair market value.

This provision has been made with a view to countering the avoidance or reduction of capital gains tax by understating the consideration

actually received. A doubt has been expressed that these provisions may apply even in cases where the capital asset is transferred to the government or the consideration for the transfer has been determined or approved by the central government.

With a view to removing uncertainty in the matter, the Bill seeks to provide that the provisions of section 52(2) of the Income-tax Act will not apply in cases where a capital asset is either transferred to the government or where the consideration for the transfer of the capital asset is determined or approved by the central government or the Reserve Bank of India, if the consideration so determined or approved is not questioned by the taxpayer.

41. The proposed amendment will take effect from 1st April, 1974 and will accordingly apply in relation

to the assessment year 1974-75 and subsequent years.

(Clause 9)

**42. Rationalisation of the provisions relating to deduction of tax at source from long-term capital gains in the case of non-residents.**—According to the rates of tax currently in force, income-tax is required to be deducted at source at the rate of 73.5 per cent in respect of capital gains arising to foreign companies, i.e., the rate at which foreign companies are required to pay tax in respect of their ordinary income.

Long-term capital gains (i.e., gains arising from the transfer of a capital asset which is held by the taxpayer for a period of more than sixty months prior to the date of transfer) are, however, chargeable to tax at concessional rates. In the case of companies (including foreign companies), long-term capital gains relating to buildings or lands or any rights therein are chargeable to tax at the rate of 55 per cent. [A lower rate of 47 per cent is applied in the case of widely-held domestic companies having taxable income (other than long-term capital gains) not exceeding Rs. 1 lakh.]

Long-term capital gains relating to other assets are chargeable to tax at the rate of 45 per cent in the case of all companies. The effect of the existing provisions in the law, therefore, is that whereas income tax is deducted at source from the income by way of long-term capital gains arising to foreign companies at the rate of 73.5 per cent, the long-term capital gains are actually taxed on regular assessment at much lower rates. This leads to the anomalous position that the tax collected at source at a higher rate is required to be refunded on assessment. In order to remove this anomaly, the Bill seeks to make a provision in the Income-tax Act to the effect that, in the case of foreign companies, income-tax will be deducted at source

from long-term capital gains at the appropriate rate at which such income is chargeable to tax on regular assessment.

43. This amendment will take effect from 1st April, 1975.

(Clause 21)

**44. Curtailment of time limit for making an order under section 104 levying income-tax on undistributed income of certain companies.**—Under section 104 of the Income-tax Act, closely-held domestic companies are required to distribute an amount equal to the "statutory percentage" of their distributable income as dividends within a period of twelve months from the end of the accounting year. If the distribution of dividends falls short of the minimum amount or if no dividends are distributed, the company becomes liable to pay additional income-tax at the specified rate on the whole of its undistributed income.

45. Under section 106 of the Income-tax Act, an order levying additional income-tax is required to be made before the expiry of four years from the end of the relevant assessment year or the expiry of one year from the end of the financial year in which the assessment for the relevant assessment year is made, whichever is later. Under an amendment made in the Income-tax Act by the Finance Act, 1968, the time limit for completion of regular assessments now stands reduced to two years from the end of the relevant assessment year, as against four years previously. In view of this position, the Bill seeks to reduce the period of limitation in relation to orders to be made under section 104 of the Act for the assessment year 1975-76 and subsequent years, from four years to two years from the end of the relevant assessment year.

(Clause 18)

**46. Deduction in respect of reserves created or provisions made for payment of gratuity**

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The State has always been a pioneer in development of power resources. Kalinadi Project, one of the biggest in Asia, has recently been launched. It would add 910 MW by the end of 1978 and double the power output of the State.

In Industry, the State has made noteworthy progress. In 1956, only 1,635 factories were working and today, the number has risen to 4,000. Mysore Silk enjoys international reputation and the State produces 80% of Silk in the country. Recent introduction of Bi-Voltine species is going to revolutionise Sericulture Industry in the State.

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Those who have still remained below the poverty line, have not reaped the fruit of development and progress to the extent they should. For achieving this end, it is necessary to undertake effective socio-economic measures. In this direction, the State has already gone ahead. Apart from several new measures for the uplift of backward sections of the society, the State Government has distributed nearly 2,80,000 house-sites among the weaker sections, of which 90,520 have been distributed to Scheduled Castes and Scheduled Tribes.

The Land Reforms Legislation, as recently amended, opens a new era. In fact, it puts an end to the era of landlordism.

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to employees.—Under section 36(1)(v) of the Income-tax Act, a deduction is allowed, in computing the taxable profits and gains of a business or profession, in respect of any sum paid by the taxpayer as an employer by way of contribution towards an approved gratuity fund created by him for the exclusive benefit of his employees under an irrevocable trust.

Further, section 37(1) provides that any expenditure, other than the expenditure of the nature described in sections 30 to 36, laid out or expended wholly or exclusively for the purpose of the business or profession will be allowed as deduction in computing the taxable profits. A reading of these two provisions clearly shows that the intention has always been that deduction in respect of gratuities should be allowed either in the year in which the gratuity is actually paid or in the year in which contributions are made to an approved gratuity fund. A doubt has been expressed that the relevant provisions, as presently

worded, do not secure the underlying objective and that a provision made by a taxpayer in his accounts in respect of estimated service gratuity payable to employees will be deductible in computing the taxable income in a case where the provision has been made on a scientific basis in the form of an actuarial valuation. In order to remove uncertainty in the matter, it is proposed to specifically provide in the law that no deduction will be allowed, in the computation of profits and gains of a business or profession, in respect of any reserve created or provision made for the payment of gratuity to the employees on retirement or on termination of employment for any reason.

This restriction will, however, not apply in relation to a provision made for the purpose of payment of a sum by way of contribution towards an approved gratuity fund that has become payable during the relevant account year, or for the purpose of meeting actual liability in respect of payment of gratuity to the employees

that has arisen during such year.

47. This amendment will take effect retrospectively from 1st April, 1973 and will, accordingly, apply in relation to the assessment year 1973-74 and subsequent years.

[Clause 6(a)]

48. **Taxation of shipping profits derived by non-residents.**—Under the existing law, taxable profits of foreign shipping enterprises are determined by suitably apportioning their global profits between their Indian business and foreign business or on the basis of "voyage accounts". Difficult and complicated issues arise in such assessments, particularly in relation to depreciation (including unabsorbed depreciation of earlier years), the balancing charge/allowance and the appointment of overhead expenses. This makes the task of Income-tax Officers very onerous and, further, there is likely to be a loss of revenue due to inability of the Income-tax Officers to get all the relevant data and evidence

necessary for examining the admissibility of various expenses.

49. The existing law also makes a special provision for the levy and recovery of tax in the case of any ship, belonging to or chartered by a non-resident, which carries passengers, livestock, mail or goods shipped at a port in India. Under this provision, an *ad hoc* assessment is made before the ship is allowed to leave the Indian port unless the non-resident shipping concern has an agent in India from whom the tax would be recoverable. For this purpose, one-sixth of the amount paid or payable for the carriage of passengers, livestock mail or goods shipped at an Indian port is regarded as taxable income which is subjected to tax at the rate applicable in the case of foreign companies. The taxpayer has, however, the option to file subsequently a return of income and ask for a regular assessment to be made if his actual income is less than the above-mentioned amount of one-sixth of the freight, etc.

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| (b) In case of experienced (minimum 3 years) technical graduates, if the project cost on fixed assets does not exceed Rs. 3 lakhs.                       |                                           |                   |
| (c) In case of two technically qualified engineers with experience joining together, where the project cost on fixed assets does not exceed Rs. 5 lakhs. |                                           |                   |
| II. Ancillary units                                                                                                                                      | 90%                                       | 85%               |
| III. For sophisticated units to be located in backward districts where the total cost of fixed assets does not exceed Rs. 3 lakhs.                       | 85%                                       | 75%               |

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Where tax already paid on the basis of an *ad hoc* assessment is found to be more than the tax determined on regular assessment, the excess is refunded.

50. With a view to simplifying and rationalising the assessments of non-resident shipping enterprises, the Bill seeks to provide that in the case of a non-resident, the profits and gains from the business of operation of ships will be taken at an amount equal to 7.5 per cent of the amount paid or payable to the taxpayer or to any other person on his behalf, on account of carriage of passengers, livestock, mail or goods shipped at any Indian port, as also of the amount received, or deemed to be received in India on account of the carriage of passengers, livestock, mail or goods shipped at any port outside India. Further, for the purpose of making an *ad hoc* assessment before a ship belonging to or chartered by a non-resident is allowed to leave an Indian port, 7.5 per cent of the

amount paid or payable to the non-resident, or to any person on his behalf, on account of carriage of passengers, livestock, mail or goods shipped at any port in India will be regarded as his taxable income.

The tax on such assessment will ordinarily be required to be paid before the ship is allowed to leave the Indian port even in cases where the non-resident has an agent in India. The existing provision that a ship may be allowed to leave the Indian port without payment of income-tax on the basis of an *ad hoc* assessment, if the Collector of Customs, or any other officer duly authorised in this behalf, is satisfied that satisfactory arrangements have been made for the payment of tax by the non-resident, will, however, continue.

51. The change proposed in respect of regular assessment of non-resident shipping enterprises will take effect from 1st April, 1976 and will, accordingly, apply in relation to

the assessment year 1976-77 and subsequent years. The changes relating to *ad hoc* assessments before port clearance is granted to ships owned by or chartered by non-residents will apply with effect from 1st June, 1975.

(Clauses 8 and 19)

52. **Depreciation allowance not to be allowed in respect of imported motor cars.**—Section 43 (1) of the Income-tax Act provides that where the actual cost of a motor car to the taxpayer exceeds Rs 25,000, the excess of the cost over Rs 25,000 will be ignored for the purposes of computing depreciation allowance. This provision does not, however, apply in respect of a motor car which is used in a business of running it on hire for tourists. The aforesaid provision was made by the Finance Act, 1966 with a view to curbing ostentatious expenditure and discouraging the use of motor cars of foreign make for the purposes of business or profession. With a view to further discouraging the use of imported motor cars, the Bill seeks to make a provision in the law to the effect that no depreciation will be allowed in respect of imported motor cars acquired by the taxpayer after 28th February, 1975. Simultaneously, the monetary ceiling limit of Rs 25,000 is being omitted so that taxpayers will be entitled to depreciation allowance with reference to the full cost of indigenously manufactured motor cars.

53. These amendments will take effect from 1st April, 1975 and will accordingly apply in relation to the assessment year 1975-76 and subsequent years.

(Clauses 4 and 7)

54. **Modification of the provisions relating to deduction of income-tax at source from interest (other than "Interest on securities").**—Under section 194A of the Income-tax Act, any person, not being an individual or a Hindu undivided family, is required to deduct income-tax at source from any interest (other than "Interest on securities" paid or

credited to any person resident in India, where the amount paid or credited at any one time exceeds Rs 400. Taxpayers have been found to circumvent these provisions by so arranging their affairs that the interest income received by them at any one time does not exceed Rs 400 by splitting up the deposits or by receiving interest at periodical intervals. With a view to counteracting attempts at circumventing the provisions of section 194A in this manner, the Bill seeks to provide that tax will be deducted at source from such income where the income credited or paid or likely to be credited or paid to the payee during the financial year exceeds Rs 400.

55. The penal provisions of the Income-tax Act, including the provisions for payment of interest, will, however, not apply for failure to deduct tax in accordance with the proposed provision, in relation to any interest credited or paid before 1st June, 1975, where the income so credited or paid at any one time does not exceed Rs 400.

56. Under the existing provision in section 194A, government departments are also under the obligation to deduct tax at source from the interest paid by them to any person. One of the objectives underlying the provision in section 194A of the Income-tax Act is to prevent loss of revenue arising from the non-disclosure of interest income by taxpayers in their return of income. This consideration, however, does not apply in regard to interest paid by the central government under the provisions of various direct taxes enactments because, in such cases, the interest payment is known to the officers of the Income-tax Department. On the other hand, the requirement of deduction of tax at source in such cases results in unnecessary accounting and avoidable extra work. It is, therefore, proposed to provide that income-tax will not be required to be deducted at source under section

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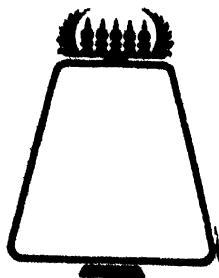
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194A from any payments by way of interest made by the central government under the provisions of the specified direct taxes enactments.

57. These amendments take effect from 1st April, 1975.

(Clause 20)

58. Certain allowances not to qualify for exemption under section 10(14) of the Income-tax Act.—Under section 10(14) of the Income-tax Act, any special allowance or benefit (not being in the nature of entertainment allowance or other perquisite) specifically granted to meet expenses wholly, necessarily and exclusively incurred in the performance of the duties of an office or employment of profit is exempt from income-tax, to the extent such expenses are actually incurred for that purpose. In a recent decision in the case of *Commissioner of Income-tax, Bombay v. D. R. Pathak*, the Bombay High Court has held that Compensatory (City) Allowance paid to compensate government servants for the extra expenditure which they are called upon to bear by reason

of their posting at a particular place is exempt from income-tax under section 10(14) of the Income-tax Act. The decision of the Bombay High Court has far-reaching implications. Compensatory (City) Allowance has been charged to tax in the assessments of salaried taxpayers made in the past.

If the decision of the Bombay High Court is followed, innumerable assessments of salaried taxpayers made during the last several years would have to be rectified. This would generate enormous administrative work and would also entail refund of crores of rupees paid as income-tax attributable to the Compensatory (City) Allowance included in computing the taxable income. Besides, the *ratio decidendi* of the decision of the Bombay High Court could also lead to considerable abuse by employers collusively describing a substantial part of the remuneration paid to favoured employees as being in the nature of compensatory city allowance. With a view to

getting over the difficulty arising from the interpretation placed by the Bombay High Court on the provisions of section 10(14) of the Income-tax Act, the Bill seeks to make a retrospective amendment in the Income-tax Act with effect from 1st April, 1962 (i.e., the date from which that Act came into force) to clarify that any allowance (other than house rent allowance which is exempt from income-tax under section 10(13A) of the Income-tax Act) granted to a person to meet his personal expenses at the place where his duties are ordinarily performed or at the place where he ordinarily resides will not be regarded, for the purposes of section 10(14) of the Act, as a special allowance granted to meet expenses wholly, necessarily and exclusively incurred in the performance of the duties.

(Clause 3(d))

#### V. PROPOSED AMENDMENTS TO THE WEALTH-TAX ACT.

59. Exemption from wealth-tax of equity shares of certain

industrial companies.—With a view to encouraging investment in new equity issues made by certain priority industries, the Bill seeks to make a provision in the Wealth-tax Act, 1957 for exemption from Wealth-tax Act, of the value of equity shares in companies established with the main object of carrying on the business of construction, manufacture or production of any one or more of the articles or things specified in the list in the Ninth Schedule to the Income-tax Act. This exemption will be available only where such shares form part of the initial issue of capital made by the company after 28th February, 1975. The exemption will be available for a period of five successive assessment years commencing from the assessment year next following the date of issue of such equity shares.

[Clause 27(a)(iv) & (v) and (c)(i)]

60. Exemption of trees on agricultural land from wealth-tax.—Under the existing provisions in the Wealth-tax Act, a taxpayer is entitled to exemp-

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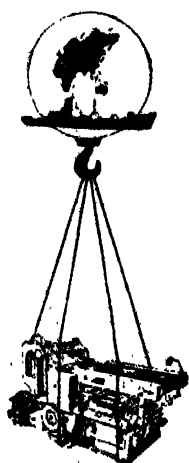
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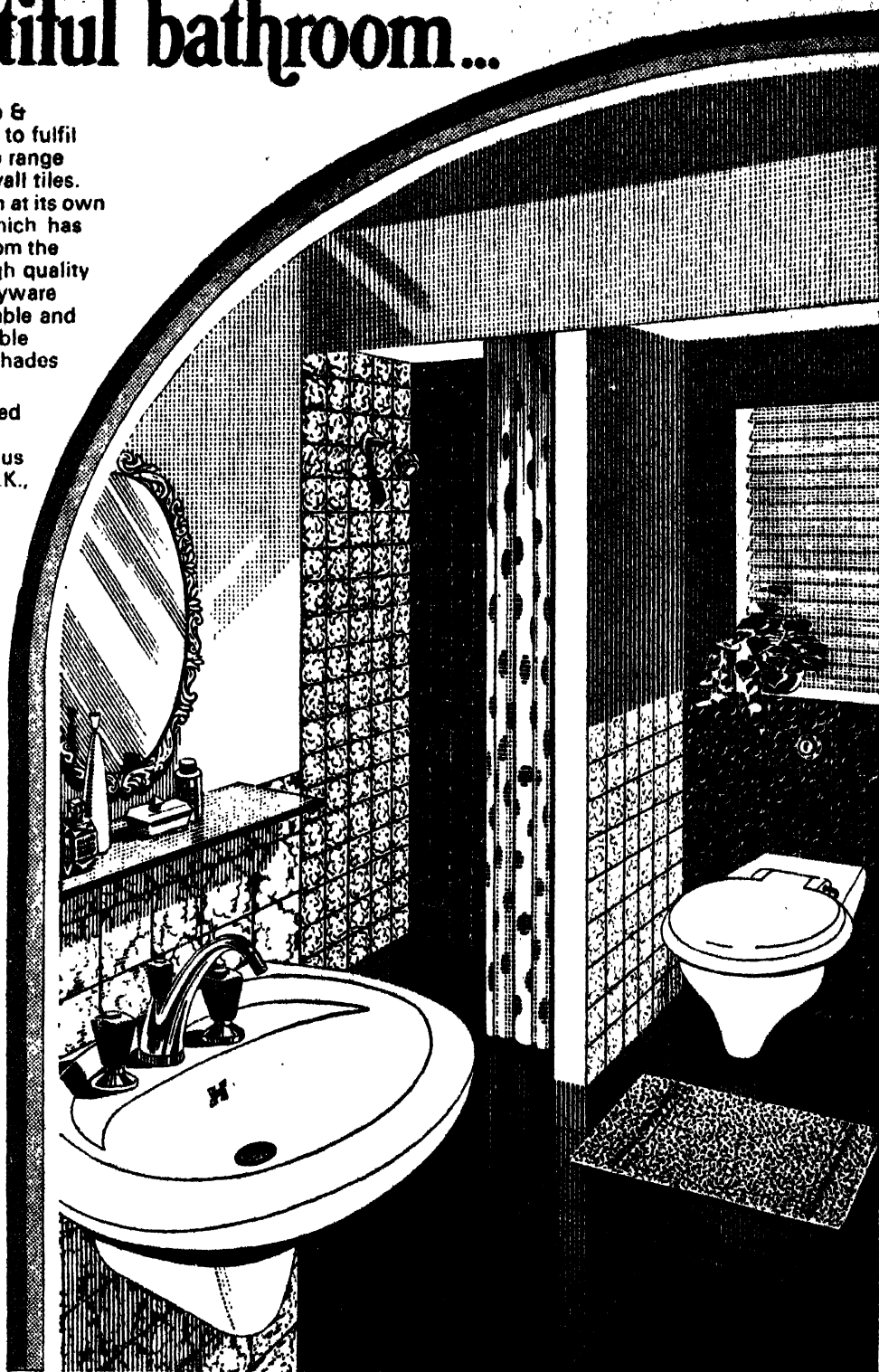
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tion in respect of specified assets up to an aggregate value of Rs 1,50,000. Agricultural land owned by a taxpayer is included in the categories of assets qualifying for this exemption. Under another provision in the Wealth-tax Act, growing crops (including fruits on trees) on agricultural land and grass on such land are exempt from wealth-tax without any monetary limit. As trees standing on agricultural land are not regarded as part of the agricultural land, the value of such trees is not exempt from wealth-tax under the aforesaid provisions. The conservation of trees is in our national interest. With a view to preventing indiscriminate felling of trees, the Bill seeks to make a provision in the Wealth-tax Act exempting the value of trees standing on agricultural land (not being trees in any orchard or plantation) from wealth-tax.

61. The proposed provision will take effect from 1st April, 1976 and will accordingly apply in relation to the assessment year 1976-77 and subsequent years.

[Clause 27(a) (ii)]

**62. Exemption from wealth tax of foreign companies having no place of business in India.**—

Under section 3 of the Wealth tax Act, wealth-tax is leviable on the three categories of taxpayers, namely, individual Hindu undivided families and companies. The levy of wealth tax on companies was suspended in 1960 as part of the scheme for reform of company taxation and has not been revived since then. Under section 2(h) of the Wealth-tax Act, the term "company" has been defined to, *inter alia*, include "a company incorporated outside India which has a place of business in India." The effect of the words italicised above is that whereas a foreign company which is carrying on business in India, either directly or through a branch, is regarded as a "company", a foreign company operating in India through a subsidiary or otherwise owning shares in an Indian company will not be

regarded as a company. Further in view of certain judicial pronouncements to the effect that the word "individual" does not include only a natural person but also includes juridical persons as well as group of individuals, it is possible to urge that foreign companies having no place of business in India (which do not fall within the definition of the term "company") are liable to pay wealth-tax as individuals.

This would lead to the anomalous position that whereas foreign companies holding shares in Indian companies would be liable to pay wealth-tax at progressive rates applicable in the case of individuals, foreign companies carrying on business in India would be altogether exempt from wealth tax. With a view to removing this anomaly, the Bill seeks to make a specific provision in the Wealth-tax Act to the effect that no tax shall be levied under that Act in respect of the net wealth of any company incorporated outside India which has no place of business in India.

63. The proposed amendment will take effect retrospectively from 1st April 1957, i.e., the date of commencement of the Wealth-tax Act.

(Clause 28)

**64. Definition of "company" under the Wealth-tax Act to be brought on par with the definition under the Income-tax Act.**—

At present, the definition of the term "company" in section 2(h) of the Wealth-tax Act differs in certain material respect from the definition of that term in section 2(17) of the Income-tax Act. This may give rise to the anomalous position that a taxable entity which is regarded as a "company" for the purposes of the Income-tax Act may not be regarded as a company for the purposes of the Wealth-tax Act. In order to remove this anomaly, the Bill seeks to substitute the definition of the term "company" in section 2(h) of the Wealth-tax Act by a new definition so as to bring the definition broadly in line with the definition of

the term "company" in the Income-tax Act.

65. The proposed amendment will take effect from 1st April, 1975.

(Clause 25)

**66. Monetary ceiling limit in respect of value of conveyances exempt from wealth-tax.**—

Under the existing provisions of the Wealth-tax Act, the value of any conveyance owned by a taxpayer is exempt from wealth-tax up to an aggregate amount of Rs 25,000. In view of the increase in the price of indigenously manufactured motor cars, the Bill seeks to increase this limit to Rs 30,000.

67. The proposed amendment will take effect from 1st April, 1975 and will apply in relation to the assessment year 1975-76 and subsequent years.

[Clause 27(a) (i)]

**68. Removal of certain anomalies in the Wealth-tax Act.**—

Under section 4(1)(a) of the Wealth-tax Act, assets transferred by an individual without adequate considera-

tion to his minor children or spouse or to trustees for the immediate or deferred benefit of his minor children or spouse, as also assets transferred to any other person under a revocable transfer, are to be included in computing the net wealth of the transferor. Some of the assets so transferred by an individual may, however, be exempt from wealth-tax under specific provisions contained in section 5 of that Act; as for instance, one house or part of a house or agricultural land 'belonging' to the individual. A view has been expressed that assets which are required to be included in the net wealth of the individual under section 4(1)(a) of the Wealth-tax Act will not be entitled to the benefit of the specific exemptions contained in section 5(1) of that Act because of the assets so transferred can not be regarded as "belonging" to the individual. With a view to removing this anomaly, the Bill seeks to amend section 4 of the Wealth-tax Act to provide that the exemption in

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respect of specified assets under section 5 of that Act will apply in relation to the assets transferred by an individual to his spouse, minor children, etc. as if such assets belonged to the transferor.

69. Exemption in respect of certain shares specified in section 5(1)(xx), (xxiii) and (xxviii) of the Wealth-tax Act is available where such shares are "held by the assessee". Section 5(3) of the Wealth-tax Act provides that wealth-tax shall be payable by the assessee in respect of specified assets, which are exempted from tax under section 5(1) of that Act, unless these assets are held by the assessee for a period of at least six months ending with the relevant valuation date. (In the case of shares, the date from which the shares were first issued may be taken into account if the period between the date of issue and the relevant valuation date is shorter than six months.) In relation to shares of companies, the expression "held by the assessee" has been judicially interpreted to mean registered in the name of the assessee. The effect of these words in the aforesaid provisions in the Wealth-tax Act is that investment in certain shares and securities would be exempt from tax only if they are registered in the name of the assessee and they have stood in his name for the requisite period specified in section 5(3) of the Wealth-tax Act.

70. Shares, securities, etc. are sometimes held by an individual, for the sake of convenience, in the name of his spouse or children or jointly with his spouse and children. In view of the position that these assets are regarded as assets belonging to the taxpayer and are, therefore, included in his net wealth, it is but fair that the value of such assets should enjoy exemption under the provisions of section 5(1) of the Wealth-tax Act in the same manner and to the same extent as assets held in his own name. With this objective in view,

the Bill seeks to make certain amendments in section 5 of the Wealth-tax Act to secure that exemption in respect of specified categories of assets owned by an individual is not denied on the technical consideration that these assets are not registered or held in his own name.

71. The proposed amendments referred to in paragraphs 68 to 70 take effect from 1st April, 1975 and will accordingly apply in relation to the assessment year 1975-76 and subsequent years.

[Clauses 26 & 27 (a) (iii) and (v) and (c) (ii) & (iii)]

#### VI. PROPOSED AMENDMENTS TO THE GIFT-TAX ACT

72. Special provisions for computation of taxable gifts not to apply in certain cases.—Section 4(1)(a) of the Gift-tax Act, 1958 provides that where property is transferred, otherwise than for adequate consideration, the amount by which the market value of the property on the date of the transfer exceeds the value of the consideration shall be deemed to be a gift made by the transferor. This provision has been made in the Gift-tax Act with a view to countering attempts at avoiding gift-tax through the device of transferring property at a nominal price, instead of making a direct gift. A doubt has been expressed that the deeming provision contained in section 4(1)(a) of the Gift-tax Act may be invoked even in cases where the property is transferred to the government or where the consideration for the transfer of any property is determined or approved by the government. Since the levy of gift-tax in such cases, by invoking the deeming provision mentioned above, will be clearly unfair and inequitable, the Bill seeks to provide that these provisions will not apply in cases where the property is either transferred to the government or where the consideration for the transfer of the property is determined or

approved by the central Government or the Reserve Bank of India.

73. The proposed amendment takes effect from 1st April, 1974 and will, accordingly, apply in relation to the assessment year 1974-75 and subsequent years.

(Clause 29)

#### VII. MISCELLANEOUS

74. Continuance of development rebate in respect of ships for a further period.—Under notification of the government of India in the ministry of Finance (Department of Revenue & Insurance) dated 28th May, 1971, issued under section 33 (5) of the Income-tax Act, the tax concession by way of development rebate was withdrawn in respect of ships acquired or machinery or plant installed

after May 31, 1974. This tax concession was, however, continued for a limited period in certain cases specified in section 16 of the Finance Act, 1974. This provided for the continuance of development rebate, *inter alia*, in the case of any ship acquired after May 31, 1974 but before June 1, 1975, where the contract for the purchase of the ship had been entered into by the taxpayer with the builder or owner thereof before December 1, 1973. In view of the consideration that the execution of ship building contracts takes considerable time and, as such, ships contracted for before December 1, 1973 may not be ready for delivery before June 1, 1975, it is proposed to extend the date for the acquisition of ships in such cases up to December 31, 1976.

(Clause 30)

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The proposals include:

- (a) Continuance upto 30.6.1976 of the provision for the levy of auxiliary duties of customs similar to the provision in section 19 of the Finance Act, 1974. The effective rates are being maintained at the existing level. All the existing exemptions in respect of auxiliary duties of customs are also being continued.
- (b) Increase in the exempted rate of additional (countervailing) duty on imported copper and copper alloys. The additional revenue expected is Rs 1050 lakhs in a year.
- (c) Withdrawal of the partial exemption from additional (countervailing) duty on imported zinc and subjecting it to the full rate of excise duty. The additional revenue expected is Rs 1400 lakhs in a year.
- (d) The additional revenue amounting to Rs 955 lakhs per annum is also expected from additional (countervailing) duties consequent on the changes in Central Excise Duties except in respect of graphite electrodes and anodes and articles covered by the new Central Excise Item No. 68, which have been exempted from the whole of the additional (countervailing) duty. Details are given below:

| S. No. | Item No. in the Import Schedule to the Indian Tariff Act. | Brief description of goods. | Additional revenue expected per annum. |
|--------|-----------------------------------------------------------|-----------------------------|----------------------------------------|
|        |                                                           |                             | (Rs Lakhs)                             |
| 1.     | 27(6)                                                     | Motor spirit                | 70                                     |
| 2.     | 27(7)(b)(2)                                               | Furnace oil                 | 620                                    |
| 3.     | 47(2)                                                     | Synthetic yarn              | 160                                    |
| 4.     | Various others                                            | ...                         | 105                                    |
|        |                                                           |                             | 955                                    |

2. There will thus be a net increase in customs revenue of Rs 3405 lakhs per annum. All of this will be from Additional (countervailing) duties.

(Clause 31)

## CENTRAL EXCISES

It is proposed to bring "hand-made biris"; "chewing tobacco" and "snuff" under the purview of Central Excises. Through executive notification, the levy is confined only to branded biris and branded chewing tobacco. In these industries, the labelling or re-labelling and packing or repacking agency may be different from the actual manufacturers. It is therefore necessary to exercise licensing control on such re-packers and re-labelling agencies so that the lawful dues to government could be collected. With the object in view a new sub-clause (ia) is being added in clause (f) of Section 2 of the Central Excises and Salt Act, 1944 making it clear that the term "manufacture" will include labelling and re-labelling of containers and re-packing from bulk packs to retail packs, etc.

(Clause 33(a))

## UNION EXCISE DUTIES

### General Notes

- (1) Percentages indicated under the "Rate of duty" column are "*ad valorem*"

- (2) Abbreviations :

|        |    |                                                |
|--------|----|------------------------------------------------|
| B      | == | Basic duty                                     |
| A      | == | Additional duty of excise in lieu of sales-tax |
| AY     | == | Auxiliary duty                                 |
| E      | == | Exempted from duty                             |
| NC     | == | No change                                      |
| DR     | == | Different rates                                |
| T      | == | Metric tonne                                   |
| Qtl.   | == | Quintal                                        |
| Rs.    | == | Rupees                                         |
| d      | == | denier                                         |
| sq. m. | == | square metre                                   |
| kg.    | == | kilogram                                       |
| NOS    | == | Not otherwise specified                        |
| NES    | == | Not elsewhere specified                        |
| gms.   | == | grammes                                        |
| NF     | == | New French                                     |
| neg.   | == | Negligible                                     |

- (3) Indicators

|   |    |                                                        |
|---|----|--------------------------------------------------------|
| * | == | Revenue measure                                        |
| # | == | Rationalisation with revenue significance              |
| † | == | Rationalisation with little or no revenue significance |

| Sl. No.                                                                                                                                                                  | Tariff item No. | Commodity                                                                                                                                      | Unit | Rate of duty (Basic)                                           |                          | Estimated additional revenue in one full year |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------|------|----------------------------------------------------------------|--------------------------|-----------------------------------------------|
|                                                                                                                                                                          |                 |                                                                                                                                                |      | Existing                                                       | Proposed                 |                                               |
| 1                                                                                                                                                                        | 2               | 3                                                                                                                                              | 4    | 5                                                              | 6                        | 7                                             |
| <b>A—Changes Proposed by Bill</b>                                                                                                                                        |                 |                                                                                                                                                |      |                                                                |                          | (Rs. lakhs)                                   |
| 1.                                                                                                                                                                       | *1(1)           | Sugar other than Khandsari or Palmyra                                                                                                          |      | (30%)                                                          | 37½%                     | 4985                                          |
|                                                                                                                                                                          | # (2)           | Khandsari sugar                                                                                                                                |      | (7½%)<br>15%                                                   | (NC)<br>NC               | (4635 B 350A)                                 |
| <b>Effective rates</b>                                                                                                                                                   |                 |                                                                                                                                                |      |                                                                |                          |                                               |
|                                                                                                                                                                          | (1)             | Sugar other than Khandsari or Palmyra                                                                                                          |      | [7½%]                                                          | NC                       |                                               |
|                                                                                                                                                                          |                 | (a) levy sugar                                                                                                                                 |      | 15%                                                            | NC                       |                                               |
|                                                                                                                                                                          |                 |                                                                                                                                                |      | (5%)                                                           | (NC)                     |                                               |
|                                                                                                                                                                          |                 | (b) non-levy sugar                                                                                                                             |      | 30%                                                            | 37½%                     |                                               |
|                                                                                                                                                                          |                 |                                                                                                                                                |      | (7½%)                                                          | (NC)                     |                                               |
|                                                                                                                                                                          | (2)             | Khandsari sugar                                                                                                                                |      | 15%                                                            | NC                       |                                               |
|                                                                                                                                                                          |                 |                                                                                                                                                |      | or, (2½%)                                                      | (NC)                     |                                               |
|                                                                                                                                                                          |                 |                                                                                                                                                |      | Appropriate compounded levy rates                              | 15%                      |                                               |
|                                                                                                                                                                          |                 |                                                                                                                                                |      |                                                                | [2.5%]                   |                                               |
| There will be no change in the present duty on levy sugar.                                                                                                               |                 |                                                                                                                                                |      |                                                                |                          |                                               |
| 2. It is proposed to withdraw the compounded levy scheme of duty collection hitherto available to Khandsari manufacturers.                                               |                 |                                                                                                                                                |      |                                                                |                          |                                               |
| 3. As in the case of Free Sale Sugar Tariff values are being fixed for Khandsari sugar also.                                                                             |                 |                                                                                                                                                |      |                                                                |                          |                                               |
| NOTE :—Figures in double brackets in the Rate Columns indicate the rates of Additional excise duty in lieu of sales-tax. [Sl. No. (i) of Part I of the Second Schedule.] |                 |                                                                                                                                                |      |                                                                |                          |                                               |
| 2.                                                                                                                                                                       | (4)             | Tobacco                                                                                                                                        |      |                                                                |                          | (—) 334 B                                     |
|                                                                                                                                                                          | I.              | Unmanufactured tobacco—                                                                                                                        |      |                                                                |                          | [—] 491 AY]                                   |
|                                                                                                                                                                          | (5)             | If other than flue-cured and not actually used for the manufacture of (a) cigarettes, (b) smoking mixtures for pipes and cigarettes (c) biris. | Kg.  | B Rs. 3.00<br>A [Re 0.50]<br>AY [20%]                          | NC<br>[NC]<br>[NC]       |                                               |
|                                                                                                                                                                          | (6)             | If other than flue-cured and N.O.S.                                                                                                            | Kg.  | B Rs. 4.00<br>A [Re. 0.75]<br>AY [20%]                         | NC<br>[NC]<br>[NC]       | (Rs. lakhs)                                   |
|                                                                                                                                                                          | (8)             | Stalks                                                                                                                                         | Kg.  | B Re. 0.50<br>A [Re. 0.10]<br>AY [20%]                         | Rs. 1.90<br>[NC]<br>[NC] |                                               |
| <b>Effective rates</b>                                                                                                                                                   |                 |                                                                                                                                                |      |                                                                |                          |                                               |
|                                                                                                                                                                          | (5)             | above                                                                                                                                          | Kg.  | B Rs. 2.50<br>A [Re. 0.50]<br>AY [10% of effective Basic duty] | NC<br>[NC]<br>[E]        |                                               |
|                                                                                                                                                                          | (6)             | above                                                                                                                                          | Kg.  | B Rs. 3.50<br>A [Re. 0.75]<br>AY [10% of effective Basic duty] | Rs. 2.25<br>[NC]<br>[E]  |                                               |
|                                                                                                                                                                          | (8)             | above                                                                                                                                          | Kg.  | B Re. 0.50<br>A [Re. 0.10]<br>AY [10% of effective Basic duty] | Rs. 1.90<br>[NC]<br>[E]  |                                               |

Tobacco Excise Tariff Committee has recommended a uniform rate of duty for all varieties of non-flue-cured tobacco (other than that used for the manufacture of cigarettes). They have also suggested a lower rate for stalks *vis-a-vis* the uniform rate recommended for all non flue-cured tobacco other than that for cigarettes. A further levy on branded biris and branded chewing tobacco and snuff has also been recommended. In pursuance of these recommendations, rates of duty on such tobacco are readjusted. With regard to further levy on biris, chewing tobacco and snuff, see notes under "Manufactured tobacco" 4 II (3), (5) and (6).

NOTE :—(1) Effective rates of Basic, Auxiliary and Additional duties will be Rs. 2.50, nil and Re. 0.50 per kg. respectively for dust of other than flue-cured tobacco of prescribed specifications, Rs. 2.50, Re. 0.25 and Re. 0.50 per kg. respectively for dust and stems of flue-cured tobacco of prescribed specifications.

(2) Loss of revenue under 'AY' has been taken into account under Part "B".

[Sl. No. (ii) of Part I of the Second Schedule]

| 1                                                                                                                                                                                                                                                                                                                                                                                                           | 2                                                         | 3  | 4                                                              | 5                 | 6                                       | 7 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|----|----------------------------------------------------------------|-------------------|-----------------------------------------|---|
| 3. * 6                                                                                                                                                                                                                                                                                                                                                                                                      | Motor Spirit                                              | KL | Rs. 2000/-<br>[Sl. No. (iii) of Part I of the Second Schedule] | Rs. 2100/-<br>25% | (Rs. lakhs)<br>1800<br>375 B<br>[75 AY] |   |
| 4. * 14D                                                                                                                                                                                                                                                                                                                                                                                                    | Synthetic Organic Dye-stuffs                              |    | 20%                                                            | 25%               |                                         |   |
| NOTE :— (i) Pigment Dye-stuffs so far exempted will also pay duty at the revised tariff rate.<br>(ii) The present effective rate of Auxiliary duty of excise which is 20% of effective Basic duty of excise continues unchanged.<br>(ii) Additional revenue under 'AY' which is consequential to the change in the rate of Basic duty of excise has been taken into account under Part 'B'.                 |                                                           |    |                                                                |                   |                                         |   |
| 5. * 14F                                                                                                                                                                                                                                                                                                                                                                                                    | Cosmetics & Toilet preparations                           |    | [Sl. No. (iv) of Part I of the Second Schedule]<br>30%         | 40%               | 230 B<br>[115 AY]                       |   |
| <b>Effective rates</b>                                                                                                                                                                                                                                                                                                                                                                                      |                                                           |    |                                                                |                   |                                         |   |
|                                                                                                                                                                                                                                                                                                                                                                                                             | (a) Perfumed hair oils (sold in unit containers)          |    | 12%                                                            | NC                |                                         |   |
|                                                                                                                                                                                                                                                                                                                                                                                                             | (b) Shampoos whether or not containing soap or detergents |    | 24%                                                            | 40%               |                                         |   |
| NOTE :— (i) The present effective rate of Auxiliary duty of excise which is 50% of effective Basic duty of excise continues unchanged. The exemption to small scale sector manufacturing Cosmetics & Toilet preparations also remains unchanged.<br>(ii) Additional revenue under 'AY' which is consequential to the change in the rate of Basic duty of excise has been taken into account under Part "B". |                                                           |    |                                                                |                   |                                         |   |
| 6. # 16                                                                                                                                                                                                                                                                                                                                                                                                     | Tyres                                                     |    | [Sl. No. (v) of Part I of the Second Schedule]<br>DR           | NC                | 200                                     |   |
| Description of the Item has been amended to include "tyre flap" so as to subject it to excise duty at appropriate rates depending on the type of 'tyre' for which it is used.                                                                                                                                                                                                                               |                                                           |    |                                                                |                   |                                         |   |
| [Sl. No. (vi) of Part I of the Second Schedule]                                                                                                                                                                                                                                                                                                                                                             |                                                           |    |                                                                |                   |                                         |   |

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### PROFILE

|                                        | June 1969 | December 1974 | Increase |
|----------------------------------------|-----------|---------------|----------|
| 1. Branches No.                        | 240       | 644           | 404      |
| — (Of which Rural & Semi-Urban)        | (98)      | (392)         | (294)    |
| 2. Deposits (Rs. crores)*              | 124.22    | 365.13        | 240.91   |
| 3. Advances (Rs. crores)*              | 74.13     | 274.32        | 200.19   |
| — Of which to                          |           |               |          |
| A. Priority Sectors (Rs. crores)*      | 21.79     | 138.14        | 116.35   |
| i) Exports                             | 15.41     | 36.47         | 21.06    |
| ii) Other Priority & Neglected Sectors | 6.38      | 101.67        | 95.29    |
| 4. % Share In Total Advances (3A:3)    |           |               |          |
| Priority Sectors                       | 29.39     | 50.36         |          |
| i) Exports                             | 20.79     | 13.29         |          |
| ii) Other Priority & Neglected Sectors | 8.60      | 37.06         |          |
| * As of last Friday                    |           |               |          |



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*Enkalon* NYLON YARN  
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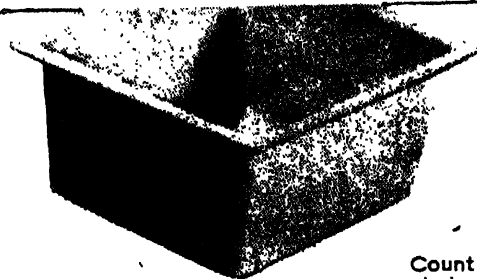
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BRANCHES



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UBI-8-74



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|---|---|---|---|---|---|---|

|      |                                                                                                                                                               |     |          |          |  |                   |
|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----------|----------|--|-------------------|
| * 17 | Paper and paper boards                                                                                                                                        |     |          |          |  | 735 B<br>[245 AY] |
| (3)  | Printing and writing paper, packing and wrapping paper, straw-board and pulp-board, etc.                                                                      | Kg. | Re. 0.60 | Re. 0.90 |  |                   |
| (4)  | All other kinds of paper and paper boards N.O.S.                                                                                                              | Kg. | Rs. 1.20 | NC       |  |                   |
|      | The present effective rates on printing and writing papers, mill-boards and straw boards and corrugated boards remain unchanged.                              |     |          |          |  |                   |
|      | 2. It is also proposed to step up the present effective duty on solid fibre boards falling under sub-item (4) of this item from Re. 0.50 to Re. 0.65 per kg.  |     |          |          |  |                   |
|      | NOTE :— (i) The present effective rate of Auxiliary duty of excise which is 33½% of effective Basic duty of excise, wherever applicable, continues unchanged. |     |          |          |  |                   |
|      | (ii) Additional revenue under 'AY' which is consequential to the change in the rate of Basic duty of excise has been taken into account under Part 'B'.       |     |          |          |  |                   |

[Sl. No. (vii) of Part I of the Second Schedule]  
1210

|       |                                           |     |          |           |  |  |
|-------|-------------------------------------------|-----|----------|-----------|--|--|
| * 18A | Cotton twist, yarn and thread, all sorts— |     |          |           |  |  |
| (1)   | of counts 29 or more                      | Kg. | Rs. 5.00 | Rs. 10.00 |  |  |
| (2)   | of counts less than 29                    | Kg. | Re. 1.00 | Rs. 4.00  |  |  |

Effective rates

| Sl. No. | Description                                                                                                             |           | (Rs. per Kg.) |      |
|---------|-------------------------------------------------------------------------------------------------------------------------|-----------|---------------|------|
| 1.      | Cotton twist, yarn or thread [other than plain (straight) reel hank yarn, and yarn used for weaving by composite mills] |           |               |      |
|         | of or more counts                                                                                                       | Less than |               |      |
|         | 84                                                                                                                      | —         | 3.75          | 5.00 |
|         | 69                                                                                                                      | 84        | 3.40          | 4.50 |
|         | 51                                                                                                                      | 69        | 3.15          | 4.25 |
|         | 40                                                                                                                      | 51        | 2.85          | 3.85 |
|         | 34                                                                                                                      | 40        | 1.25          | 1.70 |
|         | 29                                                                                                                      | 34        | 1.10          | 1.50 |
|         | 22                                                                                                                      | 29        | 0.60          | NC   |
|         | 14                                                                                                                      | 22        | 0.20          | NC   |
|         | —                                                                                                                       | 14        | 0.10          | NC   |

(Rs. lakhs)

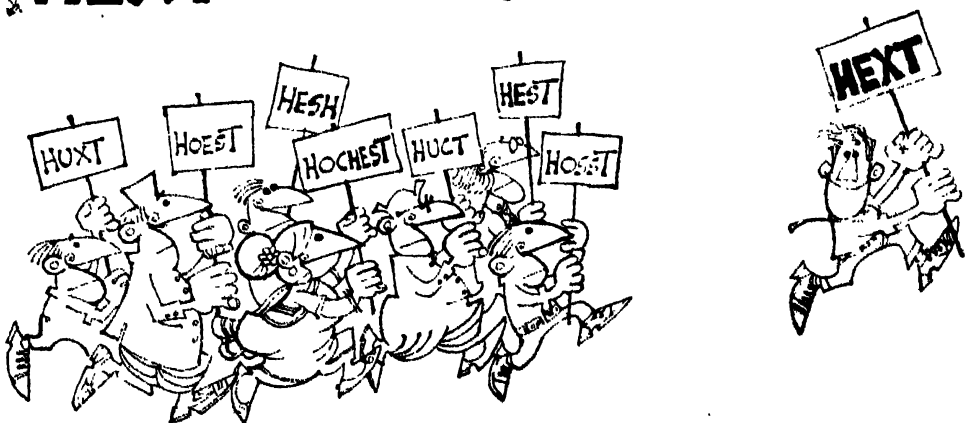
|    |                                                                                                                     |  |       |               |
|----|---------------------------------------------------------------------------------------------------------------------|--|-------|---------------|
| 2. | Yarn used in making cotton fabrics by composite mills working under special procedure                               |  |       |               |
|    | (i) Yarn used in making cotton fabrics falling under sub-item I(1) of Item No. 19                                   |  | 5.00  | NC            |
|    | (ii) Yarn used in making superfine fabrics                                                                          |  | 30.00 | 40.00         |
|    | (iii) Yarn used in making the fine fabrics                                                                          |  | 20.00 | 27.00         |
| 3. | Cotton yarn contained in fents arising out of cotton fabrics produced by factories working under special procedure. |  |       | (Rs. per kg.) |
|    | (i) Cotton yarn contained in fents of fabrics falling under sub-item I(1) of Item No. 19                            |  | 0.30  | NC            |
|    | (ii) Cotton yarn contained in fents of superfine fabrics                                                            |  | 4.00  | 5.40          |
|    | (iii) Cotton yarn contained in fents of fine fabrics                                                                |  | 1.40  | 1.90          |
| 4. | Cotton twist, yarn and thread used for weaving of cotton fabrics by composite mills working under normal procedure  |  |       |               |
|    | of 29 or more counts but less than 34 counts                                                                        |  | 2.00  | 3.00          |

There will be no change in the present rates of duty on straight reel hank yarn, generally consumed by handloom sector and also in duty on yarn of less than 29 counts (NF) generally going into the manufacture of medium-A, medium-B and coarse fabrics.

[Sl. No. (viii) of Part I of the Second Schedule]

| 1                                                                                                                                                                                                                                                                                           | 2    | 3                                           | 4 | 5   | 6   | 7                                                      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|---------------------------------------------|---|-----|-----|--------------------------------------------------------|
| 9. *                                                                                                                                                                                                                                                                                        | 23   | Cement                                      |   | 30% | 35% | 1450 B<br>[145 AY]                                     |
| NOTE :— (i) The present effective rate of auxiliary duty of excise which is 10% of effective Basic duty of excise continues unchanged.                                                                                                                                                      |      |                                             |   |     |     |                                                        |
| (ii) Additional revenue under "AY" which is consequential to the change in the rate of Basic duty of excise has already been taken into account under Part "B".                                                                                                                             |      |                                             |   |     |     |                                                        |
| 10. *                                                                                                                                                                                                                                                                                       | 23 A | Glass and glassware                         |   |     |     | [Sl. No. (ix) of Part I of the Second Schedule]<br>180 |
|                                                                                                                                                                                                                                                                                             |      | (1) sheet glass and plate glass             |   | 25% | 30% |                                                        |
|                                                                                                                                                                                                                                                                                             |      | (2) laboratory glassware                    |   | 10% | NC  |                                                        |
|                                                                                                                                                                                                                                                                                             |      | (3) glass shells, glass globes, etc.        |   | 10% | 15% |                                                        |
|                                                                                                                                                                                                                                                                                             |      | (4) other glassware including table-ware    |   | 25% | 30% |                                                        |
| There is no change in the existing concessional rate of duty of 5% on laboratory glassware.                                                                                                                                                                                                 |      |                                             |   |     |     |                                                        |
| 11. *                                                                                                                                                                                                                                                                                       | 23 B | Chinaware and porcelainware, all sorts      |   |     |     | [Sl. No. (x) of Part I of the Second Schedule]<br>190  |
|                                                                                                                                                                                                                                                                                             |      | (1) Tableware                               |   | 25% | 30% |                                                        |
|                                                                                                                                                                                                                                                                                             |      | (2) Sanitaryware                            |   | 30% | 40% |                                                        |
|                                                                                                                                                                                                                                                                                             |      | (3) Glazed tiles                            |   | 30% | 40% |                                                        |
|                                                                                                                                                                                                                                                                                             |      | (4) N.O.S.                                  |   | 20% | 25% |                                                        |
| Effective rates                                                                                                                                                                                                                                                                             |      |                                             |   |     |     |                                                        |
|                                                                                                                                                                                                                                                                                             |      | (1) Sanitaryware                            |   | 30% | 35% |                                                        |
|                                                                                                                                                                                                                                                                                             |      | (2) Glazed tiles                            |   | 30% | 35% |                                                        |
|                                                                                                                                                                                                                                                                                             |      | (3) Electrical insulators made of porcelain |   | 10% | 15% |                                                        |
| NOTE :—The existing criteria of concession to small manufacturers of chinaware and porcelainware has been suitably modified so as to facilitate natural healthy growth of the industry and to improve revenue collection. This change comes into force with effect from 1st of April, 1975. |      |                                             |   |     |     |                                                        |
| 12. †                                                                                                                                                                                                                                                                                       | 26AA | Iron or Steel Products                      |   |     |     | [Sl. No. (xi) of Part I of the Second Schedule]        |
| An explanation is being inserted under this item to define @ 'skelp' with regard to Iron or Steel products. It has no revenue significance.                                                                                                                                                 |      |                                             |   |     |     |                                                        |
| (@ See also p. 577, see B-1)                                                                                                                                                                                                                                                                |      |                                             |   |     |     |                                                        |
| [Sl. No. (xii) of Part I of the Second Schedule]                                                                                                                                                                                                                                            |      |                                             |   |     |     |                                                        |

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| 1               | 2       | 3                                                                                                 | 4   | 5 | 6                                      | 7                                 |
|-----------------|---------|---------------------------------------------------------------------------------------------------|-----|---|----------------------------------------|-----------------------------------|
| 13. *           | 27      | Aluminium                                                                                         |     |   |                                        | (Rs. lakhs)<br>1125 B<br>[375 AY] |
|                 | (a) (i) | In any crude form including ingots, bars, etc.                                                    | 30% |   | 30% plus<br>Rs. 2,000/-<br>per tonne.  |                                   |
|                 | (ii)    | Wire bars, wire rods and castings, etc.                                                           | 30% |   | 30% plus<br>Rs. 2,000/-<br>per tonne.  |                                   |
|                 | (b)     | Manufactures, namely plates, sheets, etc.                                                         | 30% |   | 30% plus<br>Rs. 2,000/-<br>per tonne.  |                                   |
|                 | (c)     | Foils, etc.                                                                                       | 30% |   | 30% plus<br>Rs. 2,000/-<br>per tonne.  |                                   |
|                 | (d)     | Pipes and tubes, other than extruded pipes and tubes                                              | 30% |   | 30% plus<br>Rs. 2,000/-<br>per tonne.  |                                   |
|                 | (e)     | Extruded shapes and sections including extruded pipes and tubes                                   | 30% |   | 30% plus<br>Rs. 2,000/-<br>per tonne.  |                                   |
|                 | (f)     | Containers made of aluminium                                                                      | 30% |   | 30% plus<br>Rs. 2,000/-<br>per tonne.  |                                   |
| Effective rates |         |                                                                                                   |     |   |                                        |                                   |
|                 | (a) (i) | above—                                                                                            |     |   |                                        |                                   |
|                 |         | (1) electrical conductor grade                                                                    | 30% |   | NC                                     |                                   |
|                 |         | (2) Others                                                                                        | 30% |   | 30% plus<br>Rs. 1,500<br>per tonne.    |                                   |
|                 | (ii)    | above—                                                                                            |     |   |                                        |                                   |
|                 |         | (1) electrical conductor grade                                                                    | 30% |   | NC                                     |                                   |
|                 |         | (2) Others                                                                                        | 30% |   | 30% plus<br>Rs. 1,500/-<br>per tonne.  |                                   |
|                 | (b)     | above                                                                                             |     |   |                                        |                                   |
|                 |         | (1) Circles of thickness of and above 0.56 mm but not above 1.22 mm (generally used for utensils) | 21% |   | 21% plus<br>Rs. 1,500/-<br>per tonne.  |                                   |
|                 |         | (2) Others                                                                                        | 30% |   | 30% plus<br>Rs. 1,500/-<br>per tonne.  |                                   |
|                 | (c)     | above                                                                                             | 24% |   | 24% plus<br>Rs. 1,500/-<br>per tonne.  |                                   |
|                 | (d)     | above                                                                                             |     |   |                                        |                                   |
|                 |         | (1) aluminium pipes of specified dimensions for agricultural irrigation purposes                  | 12% |   | 12% plus<br>Rs. 1,500/-<br>per tonne.  |                                   |
|                 |         | (2) Others                                                                                        | 30% |   | 30% plus<br>Rs. 1,500/-<br>per tonne.  |                                   |
|                 | (e)     | above—                                                                                            |     |   |                                        |                                   |
|                 |         | (1) aluminium pipes of specified dimensions for agricultural irrigation purposes                  | 12% |   | 120% plus<br>Rs. 1,500/-<br>per tonne. |                                   |
|                 |         | (2) Others                                                                                        | 30% |   | 30% plus<br>Rs. 1,500/-<br>per tonne.  |                                   |

| 1 | 2         | 3 | 4 | 5   | 6                                     | 7 |
|---|-----------|---|---|-----|---------------------------------------|---|
|   | (f) above |   |   | 30% | 30% plus<br>Rs. 1,500/-<br>per tonne. |   |

NOTE :— (i) The present effective rate of auxiliary duty of excise which is 33½% of effective basic duty of excise continues unchanged.

(ii) Additional revenue under 'AY' which is consequential to the change in the rates of basic duty of excise has been taken into account under Part 'B'.

This measure is intended to act as a restraint on the production of commercial grade aluminium and an indirect encouragement to the production of electrical conductor grade aluminium.

[Sl. No. (xiii) of Part I of the Second Schedule]

14. \* 29A Refrigerating and air conditioning appliances etc.  
and parts thereof.

360

|                                                                                         |      |      |
|-----------------------------------------------------------------------------------------|------|------|
| (1) Refrigerators and refrigerating appliances, etc.                                    | 75%  | NC   |
| (2) Air conditioners and air conditioning appliances etc.                               | 75%  | 100% |
| (3) Parts of refrigerating and air conditioning<br>appliances and machinery, all sorts. | 100% | 125% |

NOTES :—(i) The present effective rates for domestic refrigerators and other refrigerating appliances and machinery remain unaffected.

(ii) The present concessional rate for evaporative type of coolers and that available to air-conditioners for use in hospitals run by the Central or State Governments, a local authority or a public charitable institution, remain unchanged.

(iii) The present concessional rates on parts of refrigerating and air-conditioning machinery (a) for cold storage plants, (b) for hospitals run by the Central or State Governments, a local authority or a public charitable institution and (c) factory establishments, remain unchanged.

[Sl. No. (xiv) of Part I of the Second Schedule]

15. \* 33. Electric fans

150

|                                                          |     |     |
|----------------------------------------------------------|-----|-----|
| (1) Table, Cabin, etc.                                   | 10% | 15% |
| (2) Those designed for use in an industrial system, etc. | 15% | NC  |
| (3) N.O.S. (i.e. ceiling fan, etc.)                      | 15% | 20% |

Effective rates

|                                                          |      |     |
|----------------------------------------------------------|------|-----|
| (1) Table, Cabin, etc.                                   | 7.2% | 10% |
| (2) Those designed for use in an industrial system, etc. | 12%  | NC  |
| (3) N. O. S.                                             | 12%  | 15% |

[Sl. No. (xv) of Part I of the Second Schedule]

(Rs. lakhs)  
280

16. \* 33 B. Electric wires and cables.

(i) Insulated wires and cables of copper, aluminium or other metals and alloys, whether sheathed or unsheathed (of specified core sections are), etc.

|     |       |
|-----|-------|
| 15% | 17½ % |
| 10% | NC    |

(ii) Others

It is also proposed to raise the present effective rates of duty on winding wires and cables classified under sub-item (i) by 5% *ad valorem*. The present concessional rate of 12% applicable to the produce of industrial units where capital investment does not exceed the prescribed limit, is proposed to be raised to 14.5%.

2. There will be no change in the present duty on telecommunication wires and cables falling under sub-item (i).

3. The duty on wires and cables falling under sub-item (ii) of this item which includes AAC and ACSR cables also remains unaffected.

[Sl. No. (xvi) of Part I of the Second Schedule]

17. \* 48 Safes, strong boxes, etc.

10% 20% 60

[Sl. No. (xvii) of Part I of the Second Schedule]

18. # 11 Manufactured tobacco—

2906

(3) (i) Machine made biris

per 1000 B Rs. 3.00

Rs. 3.80

[2210 B  
480 A]

(3) (ii) Other biris

per 1000 B NIL

Re. 0.80

(5) Chewing tobacco

B. NIL

10%

(6) Snuff

B. NIL

10%

NOTE :— (i) This measure is in pursuance of a suggestion made by the Tobacco Excise Tariff Committee.

(ii) Under 3(ii) above only "branded" hand-made biris will pay duty.

(iii) Only "branded" chewing tobacco will pay duty. Where the value of such chewing tobacco does not exceed Rs. 10/- per Kg., it will pay duty at lower rate of 5%.

[Sl. No. (i) of Part II of the Second Schedule and entry in the Third Schedule].

| 1   | 2    | 3                                                                | 4   | 5         | 6                                                                                                      | 7    |
|-----|------|------------------------------------------------------------------|-----|-----------|--------------------------------------------------------------------------------------------------------|------|
| 19. | # 18 | Rayon and synthetic fibre and yarn including textured yarn, etc. |     |           |                                                                                                        | 4940 |
|     |      | (i) fibres and yarn, other than textured yarn                    | Kg. | Rs. 60.00 | Rs. 85.00                                                                                              |      |
|     |      | (ii) Textured yarn                                               | Kg. | —         | The duty for the time being leviable on the base yarn, if not already paid, plus rupees twenty per Kg. |      |

# Effective rates

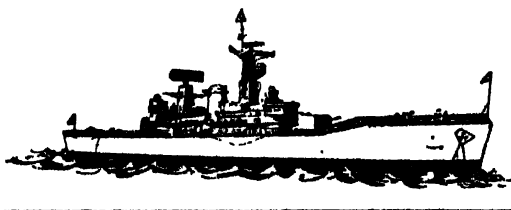
| Sl. No. | Description                                                                                                                                                                                                                                                       | (Rs. per kg.) |           |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-----------|
| 1.      | (i) Yarn spun wholly out of synthetic staple fibre of cellulosic origin, or Yarn spun out of staple fibre aforesaid and cotton only, provided that the cotton content of the yarn does not exceed 10 per cent of its weight.                                      |               |           |
|         | of or more counts                                                                                                                                                                                                                                                 | Less than     |           |
|         | 84                                                                                                                                                                                                                                                                | —             | 2.50 4.00 |
|         | 69                                                                                                                                                                                                                                                                | 84            | 2.00 3.20 |
|         | 51                                                                                                                                                                                                                                                                | 69            | 1.75 2.80 |
|         | 40                                                                                                                                                                                                                                                                | 51            | 1.50 2.40 |
|         | 34                                                                                                                                                                                                                                                                | 40            | 1.00 1.60 |
|         | 29                                                                                                                                                                                                                                                                | 34            | 0.90 1.45 |
|         | 22                                                                                                                                                                                                                                                                | 29            | 0.40 0.65 |
|         | 14                                                                                                                                                                                                                                                                | 22            | 0.20 0.30 |
|         | —                                                                                                                                                                                                                                                                 | 14            | 0.10 0.15 |
|         | (ii) Yarn spun out of staple fibre aforesaid and any natural fibre other than cotton, provided that the natural fibre content of the yarn does not exceed 10 per cent of its weight.                                                                              | 7.50          | 12.00     |
| 2.      | (a) Yarn spun wholly out of synthetic staple fibre of non-cellulosic origin, other than acrylic fibre, or                                                                                                                                                         |               |           |
|         | (b) partly out of the staple fibre aforesaid and partly any other fibre or fibres (including acrylic fibre) provided that the natural fibre content, if any, of the yarn does not exceed 10 per cent of its weight—If the non-cellulosic fibre content of its is— |               |           |
|         | (i) 50 per cent or more                                                                                                                                                                                                                                           | 15.00         | 24.00     |
|         | (ii) less than 50 per cent but not less than 25 per cent                                                                                                                                                                                                          | 12.00         | 19.20     |
|         | (iii) less than 25 per cent but more than 10 per cent                                                                                                                                                                                                             | 10.00         | 16.00     |
|         | (iv) 10 per cent. or less                                                                                                                                                                                                                                         | 7.50          | 12.00     |
| 3.      | Yarn spun either wholly out of acrylic fibre or partly of such fibre and partly of any natural fibre, the natural fibre content of such yarn being not more than 10%—                                                                                             |               |           |
|         | (1) manufactured on worsted system—                                                                                                                                                                                                                               |               |           |
|         | (a) hand-knitting                                                                                                                                                                                                                                                 | 7.00          | 11.20     |
|         | (b) others—                                                                                                                                                                                                                                                       |               |           |
|         | (i) of 40 counts and above                                                                                                                                                                                                                                        | 14.00         | 22.40     |
|         | (ii) of above 20 counts but below 40 counts                                                                                                                                                                                                                       | 8.00          | 12.80     |
|         | (iii) of 20 counts and below                                                                                                                                                                                                                                      | 4.00          | 6.40      |
|         | (2) manufactured on other systems—                                                                                                                                                                                                                                |               |           |
|         | (i) of 40 counts and above                                                                                                                                                                                                                                        | 8.00          | 12.80     |
|         | (ii) of above 20 counts but below 40 counts                                                                                                                                                                                                                       | 5.00          | 8.00      |
|         | (iii) of 20 counts and below                                                                                                                                                                                                                                      | 3.00          | 4.80      |



# INDIANOIL SERVICE TO SERVICES



India's Defence Services, no doubt are our valued customers. But we do not look at it that way. As a leading public enterprise, we deem it our prime responsibility and our duty to rally round the Services and help keep round-the-clock vigil across the national frontiers.



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The recent Indo-Pakistan hostilities posed a challenge to provide the logistic support. Indianoilmen accepted the challenge and met it squarely, irrespective of the odds, risks and costs, thus earning the nation's gratitude for their efforts in war and no less in times of peace.



**INDIAN OIL CORPORATION LIMITED**

| 1  | 2                                                                                                                                                         | 3      | 4 | 5             | 6     | 7 |
|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------|---|---------------|-------|---|
| 4. | Staple fibre and tow—                                                                                                                                     |        |   |               |       |   |
|    | (i) of cellulosic origin                                                                                                                                  |        |   | 1.50          | NC    |   |
|    | (ii) of non-cellulosic origin—                                                                                                                            |        |   |               |       |   |
|    | (a) acrylic fibre                                                                                                                                         |        |   | 6.00          | NC    |   |
|    | (b) polyester fibre                                                                                                                                       |        |   | 40.00         | NC    |   |
|    | (c) others**                                                                                                                                              |        |   | 30.00         | NC    |   |
|    | **Nylon staple fibres falling under this Item shall be exempted from so much of the duty as is in excess of Rs. 6 per kg. upto and inclusive of 1-1-1976. |        |   |               |       |   |
| 5. | Rayon and synthetic yarn consisting entirely of cellulosic derivatives or regenerated cellulose or both -                                                 |        |   |               |       |   |
|    | (a) Acetate yarn—                                                                                                                                         |        |   |               |       |   |
|    | of and above                                                                                                                                              | below  |   | (Rs. per kg.) |       |   |
|    | —                                                                                                                                                         | 75 d   |   | 10.35         | 14.50 |   |
|    | 75 d                                                                                                                                                      | 100 d  |   | 7.80          | 10.90 |   |
|    | 100 d                                                                                                                                                     | 120 d  |   | 5.80          | 8.10  |   |
|    | 120 d                                                                                                                                                     | 150 d  |   | 4.00          | 5.60  |   |
|    | 150 d                                                                                                                                                     | 350 d  |   | 3.70          | 5.20  |   |
|    | 350 d but not above 1100 d                                                                                                                                |        |   | 3.05          | 4.25  |   |
|    | above 1100 d                                                                                                                                              |        |   | 2.55          | NC    |   |
|    | (b) Others                                                                                                                                                |        |   |               |       |   |
|    | of and above                                                                                                                                              | below  |   |               |       |   |
|    | —                                                                                                                                                         | 75 d   |   | 14.25         | 19.95 |   |
|    | 75 d                                                                                                                                                      | 100 d  |   | 9.25          | 12.95 |   |
|    | 100 d                                                                                                                                                     | 120 d  |   | 6.60          | 9.25  |   |
|    | 120 d                                                                                                                                                     | 150 d  |   | 5.50          | 7.70  |   |
|    | 150 d                                                                                                                                                     | 350 d  |   | 4.70          | 6.60  |   |
|    | 350 d but not above 1100 d                                                                                                                                | 1100 d |   | 3.15          | 4.40  |   |
|    | above 1100 d                                                                                                                                              |        |   | 2.50          | NC    |   |
| 6. | Other synthetic yarn—                                                                                                                                     |        |   |               |       |   |
|    | (a) Man-made metallic yarn                                                                                                                                |        |   |               |       |   |
|    | of and above                                                                                                                                              | below  |   |               |       |   |
|    | —                                                                                                                                                         | 30 d   |   | 40.00         | 56.00 |   |
|    | 30 d                                                                                                                                                      | 75 d   |   | 35.00         | 49.00 |   |
|    | 75 d                                                                                                                                                      | 100 d  |   | 25.00         | 35.00 |   |
|    | 100 d but not above 750 d                                                                                                                                 |        |   | 20.00         | 28.00 |   |
|    | above 750 d                                                                                                                                               |        |   | 5.00          | NC    |   |
|    | (b) Polyamide (nylon) yarn—                                                                                                                               |        |   |               |       |   |
|    | of and above                                                                                                                                              | below  |   | (Rs. per kg.) |       |   |
|    | —                                                                                                                                                         | 35 d   |   | 42.00         | 58.80 |   |
|    | 35 d                                                                                                                                                      | 80 d   |   | 37.00         | 51.80 |   |
|    | 80 d                                                                                                                                                      | 110 d  |   | 32.00         | 44.80 |   |
|    | 110 d                                                                                                                                                     | 150 d  |   | 27.00         | 37.80 |   |
|    | 150 d but not above 750 d                                                                                                                                 |        |   | 14.00         | 19.60 |   |
|    | above 750 d                                                                                                                                               |        |   | 6.50          | NC    |   |
|    | (c) Polyester yarn—                                                                                                                                       |        |   |               |       |   |
|    | of and above                                                                                                                                              | below  |   |               |       |   |
|    | —                                                                                                                                                         | 30 d   |   | 55.00         | 77.00 |   |
|    | 30 d                                                                                                                                                      | 75 d   |   | 50.00         | 70.00 |   |
|    | 75 d                                                                                                                                                      | 100 d  |   | 45.00         | 63.00 |   |
|    | 100 d but not above 750 d                                                                                                                                 |        |   | 35.00         | 49.00 |   |
|    | above 750 d                                                                                                                                               |        |   | 15.00         | NC    |   |

| 1 | 2                            | 3     | 4 | 5     | 6     | 7 |
|---|------------------------------|-------|---|-------|-------|---|
|   | (d) Others—                  |       |   |       |       |   |
|   | of and above                 | below |   |       |       |   |
|   | —                            | 30 d  |   | 40.00 | 56.00 |   |
|   | 30 d                         | 75 d  |   | 35.00 | 49.00 |   |
|   | 75 d                         | 100 d |   | 25.00 | 35.00 |   |
|   | 100 d but not<br>above 750 d |       |   | 20.00 | 28.50 |   |
|   | above 750 d                  |       |   | 5.00  | NC    |   |

NOTE : There is no change in the present concessional rates of duty for godet waste or for nylon yarn for use in the manufacture of fishing nets or parachute cords.

A substantial part of the excise duty now payable on artsilk fabrics falling under Tariff Item No. 22 is being transferred to yarns falling under this item. [See notes under Sl. No. 9 in Part-C.]

|                                                                                                                                                                                                                                                                                                                                                           |       |                                                                                                                                   |         |                                                                                            |           |             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-----------------------------------------------------------------------------------------------------------------------------------|---------|--------------------------------------------------------------------------------------------|-----------|-------------|
|                                                                                                                                                                                                                                                                                                                                                           |       |                                                                                                                                   |         | [Sl. No. (ii) of Part II of the Second Schedule]                                           |           |             |
| 20                                                                                                                                                                                                                                                                                                                                                        | † 33A | Wireless receiving sets, all sorts and combination sets, etc.                                                                     |         |                                                                                            |           |             |
|                                                                                                                                                                                                                                                                                                                                                           | (1)   | Broadcast television receiver sets                                                                                                |         | 20%                                                                                        | NC        |             |
|                                                                                                                                                                                                                                                                                                                                                           | (2)   | Radios including transistor sets                                                                                                  | Per set | Rs. 300                                                                                    | NC        |             |
|                                                                                                                                                                                                                                                                                                                                                           | (3)   | Radiograms including radio or transistor sets with extra space in cabinet for fitting in record players or record changers        | Per set | Rs. 300 D.R.                                                                               | NC 30%    |             |
|                                                                                                                                                                                                                                                                                                                                                           | (4)   | Others                                                                                                                            |         |                                                                                            |           |             |
| Tariff description has been amended as a measure of rationalisation.                                                                                                                                                                                                                                                                                      |       |                                                                                                                                   |         | It has very little revenue significance. [Sl. No. (iii) of Part II of the Second Schedule] |           |             |
| 21.                                                                                                                                                                                                                                                                                                                                                       | † 43  | Wool tops                                                                                                                         | Kg.     | Rs. 5.00                                                                                   | Rs. 10.00 | —           |
|                                                                                                                                                                                                                                                                                                                                                           |       | Effective rate                                                                                                                    | Kg.     | Rs. 5.00                                                                                   | NC        |             |
| It is proposed to keep adequate cushion in the duty on wool tops for any future transfer of a part or whole of the duty leviable on woollen yarn to the wool top stage by notification. This will ensure better revenue collection. This proposal has no immediate revenue significance as there is no change in the present effective duty on wool tops. |       |                                                                                                                                   |         |                                                                                            |           |             |
| 2. The amendment of tariff description is of a clarificatory nature and has little revenue significance.                                                                                                                                                                                                                                                  |       |                                                                                                                                   |         | (Sl. No. (iv) of Part II of the Second Schedule]                                           |           |             |
| 22.                                                                                                                                                                                                                                                                                                                                                       | * 67  | Graphite electrodes and anodes, all sorts                                                                                         |         | —                                                                                          | 15%       | 150         |
|                                                                                                                                                                                                                                                                                                                                                           |       | Its is a new levy                                                                                                                 |         |                                                                                            |           |             |
|                                                                                                                                                                                                                                                                                                                                                           | * 68  | All other goods, not elsewhere specified (with a few exclusions) manufactured in a factory as defined in the Factories Act, 1948. |         | —                                                                                          | 1%        | 2400        |
|                                                                                                                                                                                                                                                                                                                                                           |       | It is a new levy                                                                                                                  |         |                                                                                            |           | (Rs. lakhs) |
| 2. By executive notification, this levy will be confined to goods produced only in factories which employ more than 49 workers in the case of power operated factories, and more than 99 workers in the case of non-power operated factories.                                                                                                             |       |                                                                                                                                   |         |                                                                                            |           |             |
| 3. It is also proposed to exempt the following items/commodities from this levy—                                                                                                                                                                                                                                                                          |       |                                                                                                                                   |         |                                                                                            |           |             |
| (a) electric light and power;                                                                                                                                                                                                                                                                                                                             |       |                                                                                                                                   |         |                                                                                            |           |             |
| (b) all kinds of food products and food preparations. (However, the preparations and products falling under Tariff Items Nos. 1B and 1C will continue to pay the present duty under the said Tariff Items);                                                                                                                                               |       |                                                                                                                                   |         |                                                                                            |           |             |
| (c) goods produced by factories belonging to the Central Government for departmental purposes;                                                                                                                                                                                                                                                            |       |                                                                                                                                   |         |                                                                                            |           |             |
| (d) goods produced by the State Governments for purposes declared by law to be incidental to the ordinary functions of Government; and                                                                                                                                                                                                                    |       |                                                                                                                                   |         |                                                                                            |           |             |
| (e) intermediate products or component parts produced in a factory and consumed within the same factory.                                                                                                                                                                                                                                                  |       |                                                                                                                                   |         |                                                                                            |           |             |
|                                                                                                                                                                                                                                                                                                                                                           |       |                                                                                                                                   |         | [Sl. No. (v) of Part II of the Second Schedule]                                            |           |             |

## B—Auxiliary Duties of Excise

Estimated additional revenue Rs 534 lakhs

Under Clause 34 of the Finance Bill, 1975, the provision for levy of Auxiliary duty of excise on all excisable goods mentioned in Central Excise Tariff Schedule at an amount equal to 20% of the value of the goods, is being continued.

2. There is no change in the present list of commodities effectively subjected to Auxiliary duty of excise and in the existing effective rates of Auxiliary duty of excise thereon except that unmanufactured tobacco covered under sub-items I(5), I(6) and I(8) of Tariff Item No. 4 will be exempted from this levy. However, on account of changes in the Basic duty of excise on cigarettes, smoking mixtures for pipes and cigarettes, synthetic organic dyestuffs, cosmetics and toilet preparations, paper and paper boards, cement and aluminium, consequential accruals under Auxiliary duty of excise have been taken into account under this head. The break-up

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

of the total accrual of Rs 534 lakhs from Auxiliary duty is shown separately elsewhere against the respective commodities in square brackets. All other excisable commodities continue to be exempted from the levy of Auxiliary duty through notification.

### B1—Special Provision as to Duties of Excise on Skelp

Duty on "Iron or Steel products" which *inter alia* included 'Strips, all sorts' was imposed for the first time with effect from 4-4-1962 under item 26AA of the First Schedule to the Central Excises and Salt Act, 1944. "Skelp", a special type of 'Hot Rolled strip', was by notification(s) subjected to an effective rate of duty different from that on other types of strips also effective from 24-4-1962. With effect from 1-3-1964, 'Skelp' is being expressly mentioned in the said tariff item. However, the rate of duty on skelp, by notifications issued from time to time since 1-3-1964, has been always higher than that on other hot rolled strips. In the absence of any definition of 'Skelp' in the statute, the collection of duty on skelp at higher rates than on other hot rolled strips was disputed by a manufacturer on the ground that the two terms skelp and strips were practically synonymous. The Supreme Court in their judgment dated 31st day of January 1975 in Civil Appeal No. 1527 of 1974 (Union of India and other Vs. the Tata Iron and Steel Co. Ltd.) upheld the contention of the manufacturer, and observed:

"Since the duties on Strip and Skelp are not the same, it is absolutely necessary to define the word skelp so that there can be no doubt or confusion in the mind of either of the taxing authority or of the tax payer with regard to the tax liability qua skelp as opposed to strip."

As all along the legislative intent has been to differentiate in respect of levy, assessment and collection of duties between skelp and strip, an explanation is being added to the aforesaid item 26AA so as to define 'Skelp' retrospectively from 24-4-1962 in order to validate the levy, assessment or collection of duties already made from that date onwards. Provision is also being made for reopening the past assessments, wherever necessary, for collecting duty on 'Skelp' at the appropriate rates effective from time to time.

[Clause 37]

### C—Changes Proposed by Notifications

|           |                                                       |     |          |          |     |
|-----------|-------------------------------------------------------|-----|----------|----------|-----|
| 1. # 3(1) | Tea, all varieties except package tea and instant tea | Kg. | Rs. 2.00 | NC       | 340 |
|           | Effective rates                                       |     |          |          |     |
|           | Zone I                                                | Kg. | Re. 0.25 | Re. 0.40 |     |
|           | Zone II                                               | Kg. | Re. 0.50 | Re. 0.60 |     |
|           | Zone III                                              | Kg. | Rs. 1.50 | Rs. 1.40 |     |
|           | Zone IV                                               | Kg. | Re. 1.00 | Rs. 1.10 |     |
|           | Zone V                                                | Kg. | Rs. 1.15 | Rs. 1.30 |     |

Along with the above changes in duty, it is simultaneously proposed, as an export promotion measure, to raise the upper limit of rebate of excise duty on teas exported, from 75 paise to 85 paise per kg.

2. Loose green tea will continue to pay the present excise duty.

|             |                                                                     |                                                                                                                  |                                                                                                                 |                  |
|-------------|---------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|------------------|
| 2.* 4 II(2) | Cigarettes                                                          | 250%                                                                                                             | NC                                                                                                              | 750 B<br>[70 AY] |
|             | Effective rates                                                     |                                                                                                                  |                                                                                                                 |                  |
|             | (i) Cigarettes of which the value per 1000 does not exceed Rs. 10/- | 85%                                                                                                              | 90%                                                                                                             |                  |
|             | (ii) Others                                                         | 85%<br>plus 3% for every additional rupee or part thereof in excess of a value of rupees 10 per 1000 cigarettes. | 90%<br>plus 3% for every additional rupee or part thereof in excess of a value of rupees 10 per 100 cigarettes. |                  |

NOTE :— (i) There is no change in the present effective rates of Additional duty of excise.

(ii) The present effective rate of Auxiliary duty of excise which is 10% of effective Basic duty of excise continues unchanged.

(iii) Additional revenue under "AY" which is consequential to the changes in the rates of Basic duty of excise has already been taken into account under Part 'B'

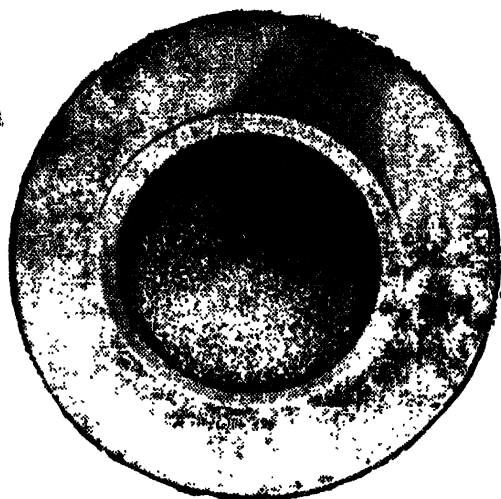
|             |                                           |      |      |                  |
|-------------|-------------------------------------------|------|------|------------------|
| 3.* 4 II(4) | Smoking Mixtures for pipes and cigarettes | 200% | CC   | 3 B<br>[neg. AY] |
|             | Effective rates                           | 150% | 155% |                  |

NOTE :— (i) There is no change in the present effective rate of Additional duty of excise.

(ii) The present effective rate of Auxiliary duty of excise which is 10% of effective Basic duty of excise continues unchanged.

(iii) Due to this change in Basic duty, additional revenue under Auxiliary duty is negligible.

| 1                                                                                                                                                                                                                                                                                                                                                                                    | 2     | 3                                                                                                                                                                            | 4                | 5          | 6          | 7                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------|------------|--------------------|
| 4.*                                                                                                                                                                                                                                                                                                                                                                                  | 10    | Furnace Oil                                                                                                                                                                  | KL               | Rs. 100.00 | NC         | 80                 |
|                                                                                                                                                                                                                                                                                                                                                                                      |       | Effective rate                                                                                                                                                               | KL               | Rs. 70.75  | Rs. 100.00 |                    |
| L. S. H. S. falling under this item used for electricity generation will continue to be completely exempt. The present concession rate for Furnace Oil supplied to Bunker Coastal Vessels also remains unaltered.                                                                                                                                                                    |       |                                                                                                                                                                              |                  |            |            |                    |
| 5.                                                                                                                                                                                                                                                                                                                                                                                   | # 13  | Vegetable Product                                                                                                                                                            |                  |            |            | 160                |
| It is proposed to modify the rebate scheme for use of cotton seed oil in the manufacture of vegetable product. No rebate would be admissible in future for the first 30% usage of cotton seed oil as against nil rebate for the first 15% usage at present. The structure of the existing rebate scheme will be continued intact except for this increase in the minimum percentage. |       |                                                                                                                                                                              |                  |            |            |                    |
| 6.                                                                                                                                                                                                                                                                                                                                                                                   | # 15  | Soap                                                                                                                                                                         |                  |            |            | 180                |
| It is proposed to modify the present rebate scheme for use of rice bran oil in the manufacture of soap as follows:—                                                                                                                                                                                                                                                                  |       |                                                                                                                                                                              |                  |            |            |                    |
|                                                                                                                                                                                                                                                                                                                                                                                      |       | (a) no rebate will be made admissible for first 25% use of rice bran oil as against present nil rebate for first 15% use of such oil;                                        |                  |            |            |                    |
|                                                                                                                                                                                                                                                                                                                                                                                      |       | (b) for every additional percentage point increase, a rebate of Rs. 3.50 per tonne of soap would be made available against the present rebate of Rs. 7.50 per tonne of soap. |                  |            |            |                    |
| 7.                                                                                                                                                                                                                                                                                                                                                                                   | # 18E | Yarn all sorts, N. E. S.                                                                                                                                                     | Kg.              | Rs. 50.00  | NC         | 460<br>(Rs. lakhs) |
| Effective rates                                                                                                                                                                                                                                                                                                                                                                      |       |                                                                                                                                                                              |                  |            |            |                    |
| 1. Yarn containing partly synthetic staple fibre on non-cellulosic origin and partly wool, the content of such synthetic staple fibre being more than 50 per cent by weight of such yarn—if non-cellulosic fibre content of it is—                                                                                                                                                   |       |                                                                                                                                                                              |                  |            |            |                    |
|                                                                                                                                                                                                                                                                                                                                                                                      |       |                                                                                                                                                                              | (In Rs. per Kg.) |            |            |                    |
| (i) 60 per cent or more                                                                                                                                                                                                                                                                                                                                                              |       |                                                                                                                                                                              | 15.00            | 24.00      |            |                    |
| (ii) more than 56 per cent but less than 60 per cent                                                                                                                                                                                                                                                                                                                                 |       |                                                                                                                                                                              | 12.00            | 19.20      |            |                    |
| (iii) more than 50 per cent but not more than 56 per cent                                                                                                                                                                                                                                                                                                                            |       |                                                                                                                                                                              | 10.00            | 16.00      |            |                    |
| 2. Yarn containing partly synthetic staple fibre of non-cellulosic origin other than acrylic fibre and partly any other fibre or fibres (excluding wool) if the non-cellulosic fibre content, by weight, of such yarn is                                                                                                                                                             |       |                                                                                                                                                                              |                  |            |            |                    |
| (i) 50 per cent or more                                                                                                                                                                                                                                                                                                                                                              |       |                                                                                                                                                                              | 15.00            | 24.00      |            |                    |
| (ii) less than 50 per cent but not less than 25 per cent                                                                                                                                                                                                                                                                                                                             |       |                                                                                                                                                                              | 12.00            | 19.20      |            |                    |
| (iii) less than 25 per cent but more than 10 per cent                                                                                                                                                                                                                                                                                                                                |       |                                                                                                                                                                              | 10.00            | 16.00      |            |                    |
| (iv) 10 per cent or less                                                                                                                                                                                                                                                                                                                                                             |       |                                                                                                                                                                              | 7.50             | 12.00      |            |                    |
| 3. Yarn containing partly synthetic staple fibre of cellulosic origin and/or cotton and partly wool, provided that the content of synthetic staple fibre of cellulosic origin and/or cotton is more than 50 per cent, by weight of such yarn:                                                                                                                                        |       |                                                                                                                                                                              |                  |            |            |                    |
| If the wool fibre content of it is—                                                                                                                                                                                                                                                                                                                                                  |       |                                                                                                                                                                              |                  |            |            |                    |
| (i) 40 per cent or more, but less than 50 per cent.                                                                                                                                                                                                                                                                                                                                  |       |                                                                                                                                                                              | 8.00             | 12.80      |            |                    |
| (ii) 20 per cent or more but less than 40 per cent.                                                                                                                                                                                                                                                                                                                                  |       |                                                                                                                                                                              | 6.00             | 9.60       |            |                    |
| (iii) less than 20 per cent.                                                                                                                                                                                                                                                                                                                                                         |       |                                                                                                                                                                              | 4.00             | 6.40       |            |                    |
| 4. Yarn containing partly wool and/or acrylic fibre and partly any other fibre or fibres provided that the wool and/or acrylic fibre content is more than 50 per cent by weight of such yarn—                                                                                                                                                                                        |       |                                                                                                                                                                              |                  |            |            |                    |
| (1) worsted yarn—                                                                                                                                                                                                                                                                                                                                                                    |       |                                                                                                                                                                              |                  |            |            |                    |
| (a) Hand knitting—                                                                                                                                                                                                                                                                                                                                                                   |       |                                                                                                                                                                              |                  |            |            |                    |
|                                                                                                                                                                                                                                                                                                                                                                                      |       |                                                                                                                                                                              | (Rs. per Kg.)    |            |            |                    |
| (i) grey                                                                                                                                                                                                                                                                                                                                                                             |       |                                                                                                                                                                              | 3.20             | 5.10       |            |                    |
| (ii) processed and/or dyed                                                                                                                                                                                                                                                                                                                                                           |       |                                                                                                                                                                              | 10.60            | 17.10      |            |                    |
| (b) Hair belting yarn                                                                                                                                                                                                                                                                                                                                                                |       |                                                                                                                                                                              | Nil              | Nil        |            |                    |
| (c) Others                                                                                                                                                                                                                                                                                                                                                                           |       |                                                                                                                                                                              |                  |            |            |                    |
| (i) of 40 counts and above                                                                                                                                                                                                                                                                                                                                                           |       |                                                                                                                                                                              | 15.00            | 24.00      |            |                    |
| (ii) of above 20 counts but below 40 counts                                                                                                                                                                                                                                                                                                                                          |       |                                                                                                                                                                              | 5.75             | 9.20       |            |                    |
| (iii) of 20 counts and below                                                                                                                                                                                                                                                                                                                                                         |       |                                                                                                                                                                              | 3.20             | 5.10       |            |                    |
| (2) Yarn (containing not less than 60 per of wool and not more than 5 per cent of virgin wool) commonly known as shoddy                                                                                                                                                                                                                                                              |       |                                                                                                                                                                              |                  |            |            |                    |
|                                                                                                                                                                                                                                                                                                                                                                                      |       |                                                                                                                                                                              | 1.00             | 1.60       |            |                    |
| (3) All others                                                                                                                                                                                                                                                                                                                                                                       |       |                                                                                                                                                                              |                  |            |            |                    |
|                                                                                                                                                                                                                                                                                                                                                                                      |       |                                                                                                                                                                              | 2.50             | 4.00       |            |                    |



## **Coffee Board's blend coffee powder at pegged price of Rs. 11.70 per kg.**

Coffee Board's blend coffee powder is sold at a pegged price of Rs. 11.70 per Kg. (against its actual cost price of Rs. 16 per Kg.) for the benefit of bonafide coffee consumers. This has been made possible by a subsidy from growers.

Available at all India Coffee Depots and Coffee Houses of the Board.



**COFFEE BOARD**  
Bangalore

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|
|---|---|---|---|---|---|---|

5. Yarn containing partly silk fibre and partly any other fibre or fibres, provided that the silk fibre content is more than 50 per cent by weight of such yarn.

15.0

24.00

6. Yarn containing two or more of (a) Synthetic staple fibre of cellulosic origin, (b) jute and (c) cotton, provided that the jute content, if any, is less than 50 per cent by weight of such yarn. —

(Rs per Kg.)

(NF Counts)

of or more  
counts

less than

Rs

Rs

84

—

2.50

4.00

69

84

2.00

3.20

51

69

1.75

2.80

40

51

1.50

2.40

34

40

1.00

1.60

29

34

0.90

1.45

22

29

0.40

0.65

14

22

0.20

0.30

14

0.10

0.15

7. Yarn containing partly jute and partly any other fibre or fibres (other than cotton fibre and synthetic staple fibre of non-cellulosic origin), provided that the jute content is more than 50 per cent by weight of such yarn.

8. Yarn, not otherwise specified

10.00

16.00

In the case of yarn mentioned against Sl. Nos. 1(iii), 3, 5 and 8 the duty shall be reduced further by Rs 2/- per Kg if such yarn is of 34 counts or less.

9. Yarn containing two or more of (a) synthetic staple fibre of cellulosic origin (b) jute (including Bimplipatam jute or mesta fibre) and (c) cotton, wherein the jute (including Bimplipatam jute or mesta fibre) content, if any, being less than 50 per cent by weight of such yarn and falling under Item No. 18E and of the description specified below (This is for yarn used under special procedure)

(In paise per sq. m.)

1. Yarn used in making cotton fabrics falling under sub-item I(1) of item No. 19

5.00

NC

1A. Yarn used in making superfine fabrics

30.00

40.00

2. Yarn used in making fine fabrics

20.00

27.00

No change is proposed in respect of yarn used in making Medium A, Medium B, Coarse fabrics and Malimo type of fabrics.

10. Yarn containing two or more of (a) synthetic staple fibre of cellulosic origin, (b) jute (including Bimplipatam jute or mesta fibre) and (c) cotton, wherein the jute (including Bimplipatam jute or Mesta fibre) contents, if any, being less than 50 per cent by weight of such yarn and falling under Item No. 18E and contained in fents, rags and chindies arising out of cotton fabrics produced by factories working under the special procedure, and of the description specified below:

(In Rs. per Kg.)

1. Yarn contained in fents of cotton fabrics falling under sub-item I(1) of item No. 19

0.30

NC

1A. Yarn contained in fents of superfine fabrics

4.00

5.40

2. Yarn contained in fents of fine fabrics

1.40

1.90

No change is proposed in respect of yarn contained in fents of Medium A, Medium B, Coarse fabrics and Malimo type of fabrics



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for

**STEEL CASTINGS**

**M. S. BARS & RODS**

**HIGH CARBON WIRE RODS**

**RIBBED TORSTEEL**

**E. O. T. & OTHER CRANES**

**RE-ROLLING MILLS**

**PLANT & EQUIPMENT FOR CHEMICAL INDUSTRIES**

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Phone : 5 5 5 6 4 1

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**SPECIAL FEATURES**—Provides 90% of the cost of the Project.

Levies no application fees, but only a nominal registration fee.

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*Head Office:*

Vellayambalam, Trivandrum-695001.

Telephones: 60319 & 62237

*Branch Offices:—*

1. Chittoor Road,  
Cochin-682011.  
Tel: 33745

2. Cherooty Road,  
Calicut.  
Tel: 76719.

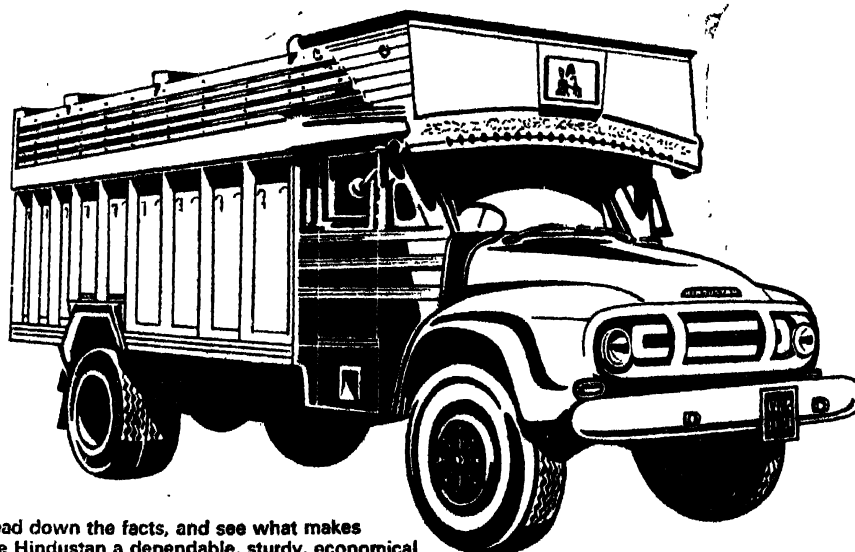
Lowest in capital cost, lowest in operating cost, Hindustan trucks operate on diesel, as well as petrol, giving you the best mileage to every litre.

Available in a range of 1 tonne to 7.5 tonnes, the Hindustan chassis can be adapted to mini buses, passenger coaches, petrol tankers, fire engines and load carriers.

**Beat  
high cost  
of fuel  
with**

# **HINDUSTAN TRUCKS**

**Lowest in capital investment  
Lowest in operating cost**



Read down the facts, and see what makes the Hindustan a dependable, sturdy, economical and long-lasting vehicle.

- Powerful, economical 5408 cc diesel engine developing 112 BHP (SAE)
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- Differential gears and pinions with wider teeth
- Shot peened gears for increased life
- Induction hardened sturdier axle shafts
- CAV-DPA fuel injection equipment



**HINDUSTAN**  
— the profit-earning vehicle

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|
|---|---|---|---|---|---|---|

8. # 19 Cotton fabrics 500  
It is proposed to put quantitative limits upto which fents and rags of cotton fabrics may be cleared at existing concessional rates. Fents and rags cleared in excess of the prescribed limit will be required to pay higher duty. These steps are intended to discourage deliberate cutting of good fabrics to claim special concessional duty applicable to genuine fents and rags.

2. It is also proposed to fix a uniform rate of compounded duty of Rs 200/- per loom per year for units where not more than 40 powerlooms are installed.

9. # 22 Art silk fabrics (Rs. lakhs) (—)2200  
It is proposed to exempt completely from basic duty of excise, processed art silk fabrics whose value does not exceed Rs 15 per sq. metre. [See also notes under S. No. 19 in Part A. Processed fabrics whose value exceeds Rs. 15 per sq. metre will pay basic duty of excise at 5 per cent as against the present rate of 9.5 per cent.

2. All processed fabrics, irrespective of value, will continue to pay the present additional duty of excise (in lieu of sales tax) and Hand-loom cess.

10. † 34A Motor vehicle parts 12  
Gudgeon pins and circlips have been included in the dutiable list. However, when intended for use as original equipment, they will not have to bear this duty.

| 11. # 37 Cinematograph films—<br>II. Exposed—            | Existing                      |                      | Proposed                      |                      |
|----------------------------------------------------------|-------------------------------|----------------------|-------------------------------|----------------------|
|                                                          | of a width of 30 mm or higher | below 30 mm in width | of a width of 30 mm or higher | below 30 mm in width |
|                                                          | (Rs. per metre)               |                      |                               |                      |
| (1) news-reels and shorts not exceeding 500 metres       | 1.00..                        | 0.50                 | NC                            | NC                   |
| (2) feature films, advertisement shorts and films N.O.S. | 2.00                          | 1.00                 | NC                            | NC                   |

#### Effective rates on films exposed

| Description          | Existing              |                                                          |                               | Description | Proposed              |                                                          |                               |
|----------------------|-----------------------|----------------------------------------------------------|-------------------------------|-------------|-----------------------|----------------------------------------------------------|-------------------------------|
|                      | less than 30 mm width | Width 30mm or more does not exceed 4000 metres in length | exceeds 4000 metres in length |             | less than 30 mm width | Width 30mm or more does not exceed 4000 metres in length | exceeds 4000 metres in length |
|                      | (i)                   | (ii)                                                     | (iii)                         |             | (i)                   | (ii)                                                     | (iii)                         |
| (In Paise per metre) |                       |                                                          |                               |             |                       |                                                          |                               |

| I. Films made in colour (other than advertisement shorts) if cleared for home consumption |     |     |     |                     |                                                                               |     |     |  |
|-------------------------------------------------------------------------------------------|-----|-----|-----|---------------------|-------------------------------------------------------------------------------|-----|-----|--|
| (a) First 12 prints                                                                       | Nil | Nil | Nil | (a) First 15 prints | (i) *Nil                                                                      | Nil | Nil |  |
| (b) Next 8 prints                                                                         |     |     |     |                     | *(if the total No. of prints cleared for home consumption does not exceed 15) |     |     |  |
| (i) First 3 prints                                                                        | 10  | 15  | 20  | (ii) 10             | 15                                                                            | 25  |     |  |
| (ii) Balance 5 prints                                                                     | 10  | 15  | 20  | (b) Next 10 prints  | 25                                                                            | 35  | 60  |  |
| (c) Next 15 prints                                                                        |     |     |     | (c) Next 15 prints  | 50                                                                            | 80  | 120 |  |
| (i) First 5 prints                                                                        | 20  | 25  | 40  |                     |                                                                               |     |     |  |
| (ii) Balance 10 prints                                                                    | 20  | 25  | 40  | (d) On balance      | 8                                                                             | 150 | 200 |  |
| (d) Next 15 prints                                                                        |     |     |     |                     |                                                                               |     |     |  |
| (i) First 5 prints                                                                        | 35  | 50  | 75  |                     |                                                                               |     |     |  |
| (ii) Balance 10 prints                                                                    | 35  | 50  | 75  |                     |                                                                               |     |     |  |

| 1                  | 2  | 3   | 4   |
|--------------------|----|-----|-----|
| (e) Next 10 prints | 60 | 90  | 125 |
| (f) On the balance | 85 | 150 | 200 |

**II. Films made in black and white (other than Advertisement shorts)  
If cleared for home consumption**

|                        |     |     |     |                     |                                                                                          |     |     |
|------------------------|-----|-----|-----|---------------------|------------------------------------------------------------------------------------------|-----|-----|
| (a) First 12 prints    | Nil | Nil | Nil | (a) First 15 prints | (i) Nil<br>*(if the total No. of prints cleared for home consumption does not exceed 15) | Nil | Nil |
| (b) Next 8 prints      |     |     |     |                     | (ii) 5                                                                                   | 10  | 20  |
| (i) First 3 prints     | 10  | 15  | 20  |                     |                                                                                          |     |     |
| (ii) Balance 5 prints  | 10  | 15  | 20  | (b) Next 10 prints  | 15                                                                                       | 20  | 40  |
| (c) Next 15 prints     |     |     |     |                     |                                                                                          |     |     |
| (i) First 5 prints     | 15  | 25  | 40  | (c) Next 15 prints  | 35                                                                                       | 50  | 75  |
| (ii) Balance 10 prints | 14  | 25  | 40  |                     |                                                                                          |     |     |
| (d) Next 15 prints     |     |     |     |                     |                                                                                          |     |     |
| (i) First 5 prints     | 25  | 40  | 60  |                     |                                                                                          |     |     |
| (ii) Balance 10 prints | 25  | 40  | 60  |                     |                                                                                          |     |     |
| (e) Next 25 prints     | 40  | 60  | 80  | (d) On the balance  | 60                                                                                       | 80  | 100 |
| (f) On the balance     | 60  | 80  | 100 |                     |                                                                                          |     |     |

NOTE :—(1) Prints cleared for home consumption after 12 months from the date of certification by Central Board of Film Censors, which were hitherto exempted, will in future pay duty at appropriate rates indicated above according to the print numbers and duty slabs applicable.

(2) Advertisement shorts which were so far assessed on slab basis at rates applicable to feature films, will now pay duty at uniform rate irrespective of the No. of prints. For advertisement shorts of width 30 mm and above, the rate will be rupees two per metre, if coloured, and rupee one per metre if in black and white. In the case of advertisement shorts of width less than 30 mm, these rates will be one rupee per metre if coloured and fifty paise per metre if black and white.

12. # 37 A. Gramophones, etc. and parts thereof. (Rs. lakhs) 50

Certain categories of amplifiers and speakers and speaker systems which are not dutiable at present, have now been subjected to duty.

13. 37AA. Tape recorders (including cassette recorders) Rs. 250/- each NC (—) 3

Effective rates Rs. 250/- each Rs. 100/- each

Present complete exemption to tape recorders including cassette recorders produced in a small-scale unit judged by the criterion of initial capital investment on plant and machinery not exceeding Rs 7.5 lakhs, continues.

14. 66 Permanent magnets 50% NC (—) 65

Effective rate 50% 25%

There is no change in the present complete exemption to permanent magnets, other than cast-alloy magnets containing (a) cobalt or (b) nickel or (c) both.

# **SUNDARAM FINANCE**

**Give you a good deal**

**Will provide finance for the purchase of :**

**LEYLAND TRUCKS AND BUSES  
PREMIER TRUCKS AND BUSES  
PREMIER CARS**

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**LOWEST HIRE CHARGES  
INSURANCE IN EASY INSTALMENTS  
36 MONTHS TO REPAY**

**SUNDARAM FINANCE LIMITED**

**37, MOUNT ROAD, MADRAS-6**

---

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IN PROGRESS  
AND  
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- \*Steel & Wooden Furniture
- \*Hospital Equipments
- \*Steel Windows Doors
- \*Door Locks
- \*Footwear & Leather goods.

## FOR DETAILS

Managing Director

**Tamilnadu Small Industries Corporation Ltd.**

"Arul Manai", 26, Whites Road,

Madras-600014 (Phone No. 82161) Gram: TANSI

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takes over  
his  
country,  
who  
pays you?**



Revolution isn't good for an export business.

A coup that gets a two-line mention in the Indian newspapers might get an exporter into serious trouble in that particular country.

The new government may pay. Or may not. Or delay the payment so much that it will throw an exporter into grave crisis.

ECGC can cover your exports against such risks. And others. Like your buyer's protracted default to pay. His insolvency. Moratorium on payments by your buyer's government.

Other services of ECGC include extended credit coverage, and performance guarantees.

If you read about a coup tomorrow, relax. With an ECGC cover, it won't kill your export business.



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& GUARANTEE  
CORPORATION  
LIMITED**

(A Government of India Concern)

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Express Towers, 10th Floor, Nariman Point,  
Bombay 400001

### BRANCHES:

BOMBAY: Combata Bldg., 2nd Floor, 45, Mahatma Kave Road, Bombay 400008  
CALCUTTA: Tata Centre, 10th Floor, 43, Chowringhee Road, Calcutta 700016  
NEW DELHI: Chaudhri House, 10-A Kasturba Gandhi Marg, New Delhi 110001  
MADRAS: Indian Bank Building, 1st Floor, 17, North Beach Road, Madras 600006  
COCHIN: Chaturvedi Bldg., 1st Floor, Mahatma Gandhi Road, Ernakulam, Cochin 682011

AYARS, ECGC, 6M

# ABSTRACT—CENTRAL EXCISE

| S.<br>No.                        | Tariff<br>Item<br>No. | Commodity                          | Additional Revenue in one full year |      |            |     |           |     |       |      |
|----------------------------------|-----------------------|------------------------------------|-------------------------------------|------|------------|-----|-----------|-----|-------|------|
|                                  |                       |                                    | Basic                               |      | Additional |     | Auxiliary |     | Total |      |
|                                  |                       |                                    | (+)                                 | (—)  | (+)        | (—) | (+)       | (—) | (+)   | (—)  |
| 1                                | 2                     | 3                                  | 4                                   | 5    | 6          | 7   | 8         | 9   | 10    | 11   |
| <b>I—Existing Items</b>          |                       |                                    | <b>(Rs. lakhs)</b>                  |      |            |     |           |     |       |      |
| 1                                | 1                     | Sugar                              | 4635                                | —    | 350        | —   | —         | —   | 4985  | —    |
| 2                                | 3(1)                  | Tea                                | 340                                 | —    | —          | —   | —         | —   | 340   | —    |
| 3                                | 4                     | Tobacco                            | 2629                                | —    | 480        | —   | —         | 421 | 2688  | —    |
| 4                                | 6                     | Motor spirit                       | 1800                                | —    | —          | —   | —         | —   | 1800  | —    |
| 5                                | 10                    | Furnace oil                        | 800                                 | —    | —          | —   | —         | —   | 800   | —    |
| 6                                | 13                    | Vegetable product                  | 160                                 | —    | —          | —   | —         | —   | 160   | —    |
| 7                                | 14D                   | Synthetic organic dyestuff         | 375                                 | —    | —          | —   | 75        | —   | 450   | —    |
| 8                                | 14F                   | Cosmetics and toilet preparations  | 230                                 | —    | —          | —   | 115       | —   | 345   | —    |
| 9                                | 15                    | Soap                               | 180                                 | —    | —          | —   | —         | —   | 180   | —    |
| 10                               | 16                    | Tyre flaps                         | 200                                 | —    | —          | —   | —         | —   | 200   | —    |
| 11                               | 17                    | Paper                              | 735                                 | —    | —          | —   | 245       | —   | 980   | —    |
| 12                               | 18                    | Rayon and synthetic fibre and yarn | 4940                                | —    | —          | —   | —         | —   | 4940  | —    |
| 13                               | 18A                   | Cotton yarn                        | 1210                                | —    | —          | —   | —         | —   | 1210  | —    |
| 14                               | 18E                   | Yarn, all sorts, NES               | 460                                 | —    | —          | —   | —         | —   | 460   | —    |
| 15                               | 19                    | Cotton fabrics                     | 500                                 | —    | —          | —   | —         | —   | 500   | —    |
| 16                               | 22                    | Art silk fabrics                   | —                                   | 2200 | —          | —   | —         | —   | —     | 2200 |
| 17                               | 23                    | Cement                             | 1450                                | —    | —          | —   | 145       | —   | 1595  | —    |
| 18                               | 23A                   | Glass and glass-ware               | 380                                 | —    | —          | —   | —         | —   | 380   | —    |
| 19                               | 23B                   | Chinaware and porcelain-ware       | 190                                 | —    | —          | —   | —         | —   | 190   | —    |
| 20                               | 26A.A                 | Iron or steel products             | —                                   | —    | —          | —   | —         | —   | —     | —    |
| 21                               | 27                    | Aluminium                          | 1125                                | —    | —          | —   | 375       | —   | 1500  | —    |
| 22                               | 29A                   | Air conditioners and parts thereof | 360                                 | —    | —          | —   | —         | —   | 360   | —    |
| 23                               | 32                    | Electric fans                      | 150                                 | —    | —          | —   | —         | —   | 150   | —    |
| 24                               | 33A                   | Wireless receiving sets            | —                                   | —    | —          | —   | —         | —   | —     | —    |
| 25                               | 33B                   | Electric wires and cables          | 280                                 | —    | —          | —   | —         | —   | 280   | —    |
| 26                               | 34A                   | Motor vehicle parts                | 12                                  | —    | —          | —   | —         | —   | 12    | —    |
| 27                               | 37                    | Cinematograph films—exposed        | 150                                 | —    | —          | —   | —         | —   | 150   | —    |
| 28                               | 37A                   | Gramophones and parts              | 50                                  | —    | —          | —   | —         | —   | 50    | —    |
| 29                               | 37A.A                 | Tape recorders                     | —                                   | 3    | —          | —   | —         | —   | —     | 3    |
| 30                               | 43                    | Wool tops                          | —                                   | —    | —          | —   | —         | —   | —     | —    |
| 31                               | 48                    | Safes and strong boxes             | 60                                  | —    | —          | —   | —         | —   | 60    | —    |
| 32                               | 66                    | Permanent magnets                  | —                                   | 65   | —          | —   | —         | —   | —     | 65   |
| <b>Total of I above</b>          |                       |                                    | 23401                               | 2268 | 830        | —   | 955       | 421 | 24765 | 2268 |
| <b>Net</b>                       |                       |                                    | 21133                               | —    | 830        | —   | 534       | —   | 22497 | —    |
| <b>II—New Levies</b>             |                       |                                    |                                     |      |            |     |           |     |       |      |
| 1                                | 67                    | Graphite Electrodes, etc.          | 150                                 | —    | —          | —   | —         | —   | 150   | —    |
| 2                                | 68                    | All other goods N. E. S.           | 2400                                | —    | —          | —   | —         | —   | 2400  | —    |
| <b>Total of new levies</b>       |                       |                                    | 2550                                | —    | —          | —   | —         | —   | 2550  | —    |
| <b>Grand Total of I &amp; II</b> |                       |                                    | 23683                               | —    | 830        | —   | 534       | —   | 25047 | —    |

## SUMMARY

|                                               | Centre                | States | Total  |
|-----------------------------------------------|-----------------------|--------|--------|
|                                               | <b>(Rs in crores)</b> |        |        |
| (a) Basic duty                                | 89.47                 | 47.36  | 236.83 |
| (b) Additional duty<br>(in lieu of sales tax) | —                     | 8.30   | 8.30   |
| (c) Auxiliary duty                            | 5.34                  | —      | 5.34   |
| <b>Total</b>                                  | 194.81                | 55.66  | 250.47 |



## Amendment of Central Sales Tax Act, 1956

Under Article 269(1)(g) of the Constitution taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-state trade or commerce, are levied by the Government of India but are assigned to the States; collections in the union territories form part of the Consolidated Fund of India. Further, Article 286(3) of the Constitution empowers the Parliament to declare by law any goods as of special importance to inter-State trade or commerce and to lay down restrictions and conditions in regard to the system of levy, rates and other incidents of tax subject to which any state law might authorise the imposition of tax on sale or purchase of such goods.

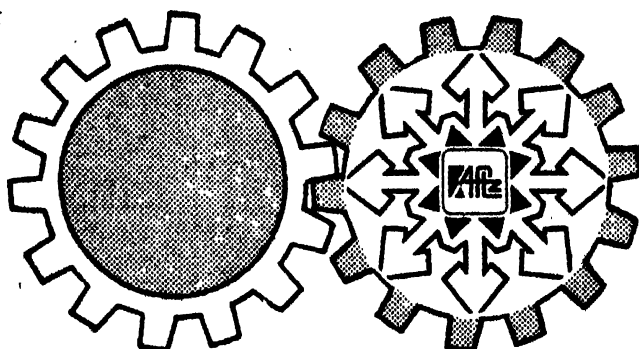
Under section 8(1) of the Central Sales-tax Act, 1956, the rate of sales-tax in respect of inter-state sales either to government or to registered dealers of goods of the description specific in section 8(3) of that Act, which are meant for resale, or for manufacture, etc., is three per cent. It is proposed to increase this rate to four per cent. However, if the rate of sales-tax obtaining in the state in which the goods are purchased is less than four per cent, the lower rate will be applicable. The new rate will become effective from the 1st July, 1975.

It is also proposed to amend section 8(2)(a) of the Act to provide that inter-state sales of declared goods not falling within section 8(1) aforesaid would be taxable at twice the rate applicable on sale or purchase of such goods inside the appropriate State. The amendment has been proposed with a view to ensuring flow of inter-state trade through media of registered dealers.

The amendment of section 15 of the Central Sales-tax Act, 1956 is with a view to raise from three per cent to four per cent, the ceiling prescribed in respect of sales-tax on goods declared to be of special importance in inter-state trade or commerce. This is a permissive amendment and would enable the states to re-fix the rates of local sales-tax on coal, cotton, cotton-yarn, hides and skins, iron and steel, jute and oil-seeds within the increased ceiling, if they so desire, with effect from the July 1, 1975.

[Clause 38]

## Kandla Free Trade Zone offers you something new to maximise export earnings



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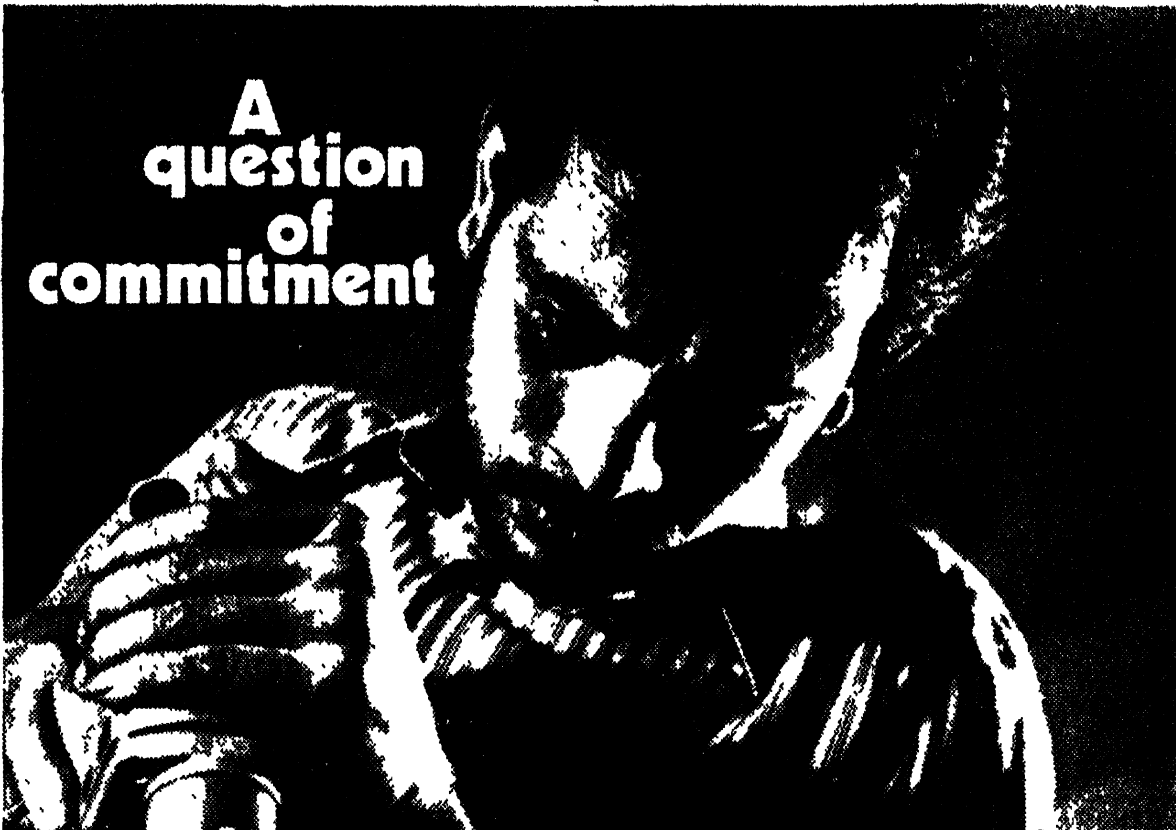
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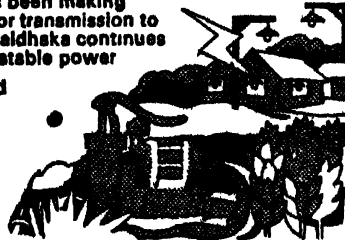
**PROJECTS :** Both Bandel and Santaldih are 'on expansion'. The 2nd Santaldih unit will shortly be transmitting power through the new 220 KV direct line to Calcutta while another giant plant comprising three 200 MW units is in the making at Kolanghat. The hydel projects at Jaldhaka and Kurseong are also 'on expansion'.

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# External assistance

GIVEN BELOW is a brief description of the assistance in the form of loans and grants received from friendly foreign countries and international organisations. The estimates of net flow of external assistance during the year 1974-75 and 1975-76 are summarised in Table I :

Two statements, one showing amounts of loans authorised and the sums drawn against them and another showing the repayments in respect of each loan are added at the end.

## A—Loans

### I. Loans from the USA

Loans extended by the United States government upto December 31, 1974 amounted to \$8116.64 million (net of cancellation).

(i) *Loans from US AID:* Loans from US AID total \$2560.45 million net of cancellations. These are repayable in dollars. Repayment is scheduled for 40 years, with no payments of principal during a grace period of first ten years.

Besides loans to government, certain loans have been given by the AID directly to private and public sector undertakings. The repayment of such loans is governed by the special loan repayment procedure agreements between the Government of India and the US AID. In these cases the loans are repaid in rupees by the borrowers to the govt. of India in varying numbers of instalments according to the terms of the loan agreements. The government assumes liability for payment to AID in dollars of the principal amount in 40 years with a moratorium of 10 years.

(ii) *PL 480 convertible currency credit.*—The PL 480 Commodity Agreements signed since 1967 also provide for import of agricultural commodities against convertible local currency credit which will be analogous to other dollar credits. This credit is repayable

in 31 annual instalments beginning 10 years after the imports are made.

The US government have so far provided debt relief to the extent of \$34.92 million by deferring principal and interest payments during the years 1968-69 to 1971-72. From 1972-73 the debt relief assistance is in the form of refinancing credits repayable in 20 equal annual instalments excluding a grace period of seven years. The debt relief for the year 1972-73 and 1973-74 was \$29.14 million and \$29.34 million respectively. The debt relief for the year 1974-75 is estimated at \$45.00 million.

(iii) *Loans from US Exim Bank.*—Loans from the US Export Import Bank for financing the imports from USA of capital equipment and related spares and services to the end of 1974 amount to \$346.66 million. These loans are repayable in dollars in 20-23 semi-annual instalments commencing after an initial period of moratorium extending upto five years.

### II. Loans from the USSR

The Soviet assistance for India's economic development commenced in 1955 with eight credit agreements (the latest signed in December 1966) for a total value of 1225.36 million Roubles. These are government credits, confined to public sector projects towards the basic and heavy industries and development projects included in the five year Plan.

2. Soviet credits carry an interest at 2½ per cent per annum and are generally repayable over a period of 12 years starting one year after the completion of shipments of equipment required for putting the project into operation. Exceptions are the credit for the drugs project for roubles 18 million which was repayable in seven years, and the credit for the Bokaro Steel Plant under which repayment of the principal starts one year after a

given amount is disbursed. There are no commitment charges payable on the Soviet credits and interest is charged on the amount drawn.

3. Both the payment of interest and repayment of principal are made in Indian Rupees which are utilised by the Soviet authorities for purchase of Indian goods in accordance with the Indo-Soviet Trade and Payments Agreement in force at the time.

4. Among the projects which have been financed wholly or in part with Soviet assistance are the Bhilai and Bokaro Steel Plants; the Heavy Machine Building Plant, Ranchi, a larger number of power projects such as Neyveli, Korba, Singrauli; the Kota Precision Instruments Project; exploration for oil and gas; the Barauni and Koyali Refineries; the Coal Mining Machinery Plant; the Ophthalmic Glass Project, etc.

5. USSR have provided two million tonnes of wheat on loan. Its replacement to the Soviet Union would commence two years after full delivery and be effected in the course of five years in equal annual instalments. On the basis of the issue price prevailing at the time of the shipments were

required in India, Food Corporation of India has paid Rs 202 crores to government for the wheat.

### III. Loans from the UK

1. The UK government have been extending long term loans through the Aid India Consortium since its formation in 1958. The total value of the loans granted upto December, 31, 1974 has been £701.4 million. In addition to the above, a credit of £11.5 million was extended to the government of India by Lazard Brothers heading a Syndicate of British banks for the setting up of the Durgapur Steel Plant. A financial agreement was also signed by the government of India with Barclays Bank Ltd, UK for the amount of £2.55 million in October, 1966 to provide foreign exchange for the import of raw material and components required by M/s. AVB Durgapur for manufacture of two boilers each for the thermal power Station at Santhal-dih of the West Bengal Electricity Board and for DVC.

2. The terms of British aid have progressively softened over these years and these credits are now repayable over a period of 25 years with a grace period of seven years. The credits are also now complete-

TABLE I  
Estimates of Net flow of External Assistance in  
1974-75—1975-76

| (In crores of rupees) |                                |                                 |                                |
|-----------------------|--------------------------------|---------------------------------|--------------------------------|
|                       | Budget<br>Estimates<br>1974-75 | Revised<br>Estimates<br>1974-75 | Budget<br>Estimates<br>1975-76 |
| <b>Loans</b>          |                                |                                 |                                |
| Receipts              | +849.79                        | 888.32                          | 928.47                         |
| Repayments            | —297.32                        | —293.39                         | —315.78                        |
| Interest Payments     | —169.37                        | —166.90                         | —172.11                        |
| <b>Grants</b>         |                                |                                 |                                |
| PL 480                | +11.60                         | 16.40                           | —                              |
| Others                | +12.12                         | 71.72                           | 37.50                          |
| <b>Net</b>            | <b>406.82</b>                  | <b>516.25</b>                   | <b>471.08</b>                  |

ly interest free. Quantitatively, the British aid has been showing an upward trend. The total quantum of aid increased from £ 47 million in the year 1969-70 to £ 51.5 million in 1970-71 and to £ 54.5 million in the year 1971-72. The credit agreements signed during the year 1972-73 and 1973-74 amounted to £ 71.5 million and £ 73 million respectively. Agreements for £ 39.4 million have been signed upto December, 31, 1974 and for £ 55.6 million are expected to be signed before March 31, 1975. The assistance from UK is discernible into Project aid and non-Project aid as under:

### 3. Project Aid

Out of the total economic assistance of £ 701.4 million the project assistance has been of the order of £ 225.50 million. The project assistance is (a) for the financing of large value projects by meeting their requirements under the UK-India Mixed Project Loans and (b) for the import of capital goods that are needed for India's economic development being met from the UK-India Capital Investment Loans.

4. The principle on which the British project aid is administered is known as 'partial funding' system. This method of financing permits the foreign exchange requirements of large value projects by ensuring them their year to year offtake of British aid funds. In short, under this system a number of projects are simultaneously taken up for British aid financing, their yearly foreign exchange requirements being met out of the current Mixed Project Loan with their further requirements of foreign exchange till completion of the project assured out of future Mixed Project Loans. This form of assistance has been helpful for financing large value projects in the priority and core sectors of our economy.

### 5. Non-Project Aid

The Non-project aid forms a substantial part of aid given by the UK government and comprises of Balance of Payment

Assistance, Debt Relief Assistance, Ripping Loans, Food Relief Assistance and others. The UK-India Maintenance Loans are for the import of non-project goods from Britain. Amongst these are raw materials, spare parts and components required to service India's agricultural and industrial production.

The total debt relief assistance received so far from Britain is £ 75.4 million.

### 6. Terms of Lending by the UK

The loans granted in the second Plan were repayable over a period varying from 6½

to 20 years whereas these extended in the third Plan were repayable over a period of 25 years with a grace period of 5 to 7 years.

Following the Consortium meeting held on June 5, 1963 the UK government waved payment of interest for the first seven years for loans made in 1963-64 and thereafter. Commencing with the General Purpose Loan Agreement signed on October 20, 1965, no interest is payable on their loans. The present loans, as stated earlier, are all repayable over 25 years inclusive of a grace period of seven years with

no interest payments or any service charges.

### IV. Loans from Canada

The loans from Canada are (a) Wheat Loans, (b) Export Development Corporation Credits, and (c) Development Loans. The credits against the Wheat Loan amounted to Canadian \$33.00 million for purchase of wheat and flour. The Export Development Corporation Credits are medium-term supplier credits from the government owned Export Development Corporation of Canada, amounting to C. \$120.09 million. The Develop-

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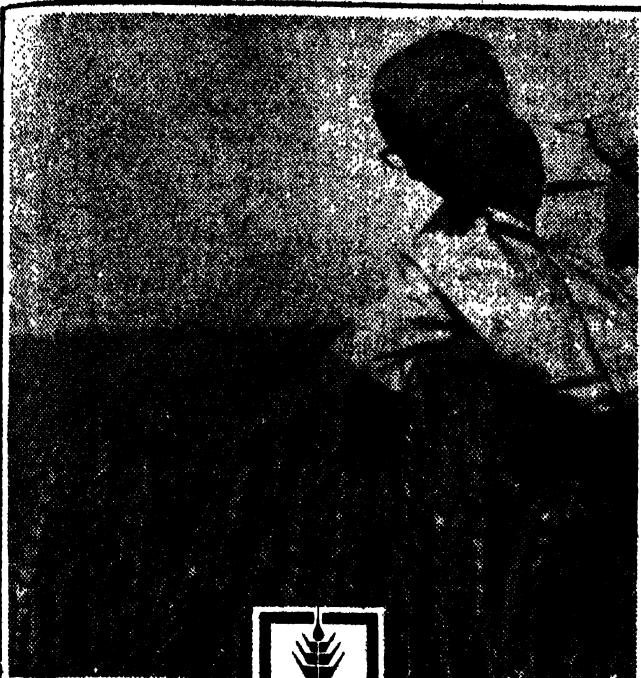
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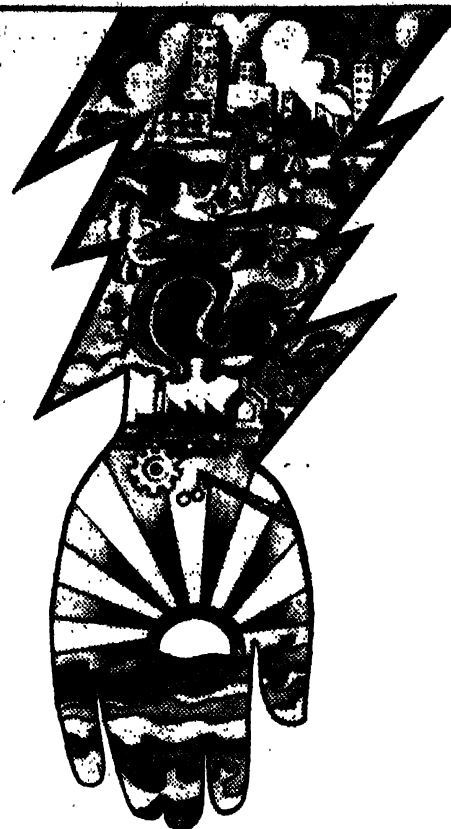
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ment Loans amounted to C. \$437.08 million.

2. Canadian development aid is channelised through Canadian International Development Agency (CIDA) and has so far come in the shape of, (a) grants for food and non-food items, (b) non-project loans for purchase of industrial commodities, fertilisers and miscellaneous capital goods and (c) project loans for meeting the import requirements of specific projects. In addition, Canada extended credits through the government owned Export Development Corporation (EDC).

3. The non-project assistance mainly relates to import of commodities, fertilisers and capital goods while the project assistance was extended to Rana Pratap Sagar Project, Oil and Natural Gas Commission, port handling equipment at Kandla and Haldia, Synthetic Rubber Project, Second Satellite Communication, diesel loco works etc.

4. The general terms and conditions of loans extended by Canada are given in Table II.

#### Debt Relief

5. Canadian government had provided debt relief since 1968-69 in the form of postponement for 10 years of specified principal payments as well as cash grant in lieu of waiving of interest due on payments so postponed.

#### V. Loans from the Federal Republic of Germany

The government of Federal Republic of Germany have so far committed loan assistance to India to the extent of DM 6245.16 million. The assistance provided is made available for utilisation through specific agreements signed with Kreditanstalt Fur Wiederaufbau (KFW), the German Bank for Reconstruction. Agreements totalling DM 6029.93 million have so far been signed with the KFW. The credits so made have been used for financing specific projects such as Rourkela Steel Plant, Mysore Iron & Steel Works, Neyveli Lignite Mining Project, coal washeries, railways,

Telco etc. and for purchase of commodities like fertilizers, capital goods, components, machinery and raw materials. The terms of W. German loan have been soft particularly in respect of loans pertaining to more recent years. Until 1968-69 the period of repayment was 25 years with a grace period of seven years. This has been improved upon since 1969-70 to 30 years repayment period including grace period of eight years. The grace period has been increased to 10 years in respect of agreements concluded from 1972-73.

The Federal Republic of Germany have also provided assistance in the form of "debt relief" as part of Consortium Aid to India in the form of refinancing repayments of earlier loans, earmarking of certain portions of commodity credit for the financing of purchases from third countries and foregoing a portion of interest on certain earlier loans and treating it as a grant to the govt. of India. The total value of debt relief received or committed so far is DM 874.05 million.

During 1974-75, the Federal Republic of Germany is also providing grants up to DM 10 million for Rural Development Programme.

#### VI. Loans from Japan

The Japanese government have so far extended eighteen credits for a total amount of 267.34 billion Yen through the Japanese Export Import Bank, intended for purchase in Japan of equipment for railways, power projects, fertiliser projects, petrochemicals and fibre projects, coal and iron ore mining and processing equipment, for ports, machine tools, ships, other industrial machinery and components, etc. The loans are repayable over a period of 10 to 20 years, with a grace period of 3 to 7 years.

The above excludes Japanese assistance for debt rescheduling of principal repayments for 59.51 billion Yen from 1967-68 to 1973-74 and 815 million Yen out of the

First Yen Credit relating to Shipping Corporation of India. Debt relief expected for 1974-75 is 12.14 billion Yen.

#### VII. Loans from Switzerland

The government of Swiss Confederation had up to the end of December 31, 1974 provided four credits totalling 300 million Swiss Francs for capital goods & machinery required for development programmes. This includes a development loan of 35 million Swiss Francs signed in October 1973 for capital goods and services for 400 KV Substations being constructed at Obra, Sultanpur and Lucknow in Uttar Pradesh. The transfer credits are made available through a consortium of banks and by Swiss government. The credits cover generally 90 per cent of the FOB value of the goods contracted for and financed under the credits, the balance of 10 per cent being met by importers from free foreign exchange made available. The credits through a consortium of banks are repayable in 10 years from the date they are made use of with a grace period of 3-5 years

while the government credits are repayable in 15-40 years

#### VIII. Loans from Czechoslovakia

The government of Czechoslovakia has signed three credit agreements with the government of India for a total value of Rs 176.20 crores.

2. Among the projects which have been financed under these credits are, Foundry Forge Plant, Ranchi, Heavy Machine Tools Project, Ranchi, High Pressure Boiler Plant, Tiruchirapalli, Heavy Power Equipment Plant, Hyderabad, Heavy Duty Electric Locomotives, components for manufacture of turboblowers and compressors at Hyderabad, Bharat Heavy Plate and Vessels Works, Vishakhapatnam, Ennore Thermal Power Station, Ajmer Machine Tools Factory etc.

The terms and conditions of the credits are given in Table III:

3. Under all the three credits both the repayment of principal and payment of interest are made in rupees

TABLE II  
Terms and Conditions of Canadian Loans

| Nature of Credits                          | Terms and Conditions                                               |
|--------------------------------------------|--------------------------------------------------------------------|
| 1. Wheat Loans                             | Repayable in seven equal annual instalments—interest at 4 per cent |
| 2. Export Development Corporation Credits. | Repayable between 15 to 20 years—Interest at 6 per cent            |
| 3. Development Loans                       | Repayable over a period of 50 years—Free of interest charges.      |

TABLE III  
Terms and Conditions of Czechoslovak Loans

|                          | Rate of Interest | Period of Repayment                                 |
|--------------------------|------------------|-----------------------------------------------------|
| First credit             | 2 1/2%           | 8 years                                             |
| Second and Third credits | 2 1/2%           | 12 years for capital goods, 8 years for components. |



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which are utilised by the Czech authorities for the purchase of Indian goods according to the provision of the Indo-Czech Trade Plan.

#### IX. Loans from Yugoslavia

The government of Yugoslavia have extended two credits for a total sum of Rs 28.48 crores for purchase of ships and for import of capital goods and equipment for power projects, marine diesel engines, for fisheries etc. While the first credit is repayable in equal consecutive semi-annual instalments within such periods as may be specifically agreed to in the contracts, the second credit of Rs 60 crores was mainly suppliers credit, government credit constituting only Rs 10 lakhs.

#### X. Loans from Poland

The government of Poland have extended three credits for a total value of Rs 38.16 crores. The credits were repayable over a period of 8-12 years and carried a rate of interest @2½ per cent per annum. Both the payment of principal and the payment of interest are made in rupees which are utilised by the Polish authorities for the purchase of Indian goods according to the provisions of the Indo-Polish Agreement.

#### XI. Loans from Austria

The Austrian government have so far extended eight credits for a total amount of 664.85 million Austrian Schillings for purchase of Austrian goods. These credits are repayable in consecutive half yearly instalments over a period of 10 to 18 years including a grace period of 2 to 7 years.

The government of Austria have also extended seven credits for 223.74 million A.S. for refinancing of repayment of principal in respect of the earlier loans. Debt Relief for 1974-75 is estimated at A.S. 56.86 million.

#### XII. Loans from Netherlands

The Netherlands have so far extended credits for 553.5 million Dutch Guilders for purchase of capital goods and raw materials. This is in addition to the financial

(export) credits pledged to the extent of 97.8 million Dutch Guilders. These loans are repayable over a period of 19 to 23 years. Debt Relief of DG. 2.31 million, DG 2.18 million in the shape of reduction in interest payment was granted during the year 1972-73 and 1973-74.

A sum of DG 12.76 million (Rs 3 crores) is expected for 1974-75 towards Debt Relief from the Netherlands as an out-right grant assistance.

#### XIII. Loan from Denmark

The government of Denmark have extended five credits to the extent of 165 million Danish Kroners for purchase of dairy machinery and capital goods. The credits are payable over a period of 12-25 years. In addition, Denmark has provided food assistance for

60 million Danish Kroners for purchase of fertilisers and milk products. The credit is repayable over a period of 20 to 25 years.

The government of Denmark waived the repayment of principal of 16.64 million Danish Kroners repayable during the year 1974.75 to 1978-79.

#### XIV. Loans from Sweden

The government of Sweden have so far extended eight development credits aggregating 558.90 million Swedish Kroners for the procurement of goods and services for dairy projects, electricity power systems, for procurement of fishing trawlers drilling and mining equipment and materials and equipment for Indo-Swedish joint industrial ventures and Wheat Storage Project undertaken by the Food Corporation of India.

The first four credits are repayable in semi-annual instalment over a period of 25 years with a grace period of 10 years. The rest are repayable over a period of 50 years with a grace period of 10 years.

The government of Sweden have agreed to extend cash assistance in lieu of reimbursements on account of commodity imports made from Sweden. A sum of Rs 7.54 crores on this account is expected to be received in 1974-75. In addition a sum of Rs 65 lakhs is also expected in 1974-75 towards reduction in the payment of interest on earlier loans.

#### XV. Loan from Bahrain

Special Indian Rupee notes and Indian coins which were in circulation in Bahrain ceased to be legal tender from 1965 and were replaced by a new

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local currency. According to agreement with the government of Bahrain the Indian currency exchanged with the government of Bahrain and returned to the Reserve Bank of India has been transferred to the government of India

and the amount so transferred was treated as a loan from the government of Bahrain to the government of India repayable in sterling. This loan amounted to Rs. 7.86 crores. One-third of the Loan amounting to Rs 2.62 crores was paid

on April 30, 1966. The balance is payable in ten equal annual instalments commencing from February 5, 1967.

#### XVI. Loans from Italy

The government of Italy under an agreement signed in 1966 offered a credit of 1250 million Liras for the import of fertilizers from that country and, if required, for the payment of the transportation expenses relating to them. The credit is repayable over a period of fifteen years in 25 equal half-yearly instalments. Italy has also offered three debt relief credits amounting to 12,625 million Italian Liras,

#### XVII. Loans from Belgium

The government of Belgium have so far extended nine credits for a total amount of 1585 million Belgium Francs (inclusive of debt relief) for purchase of Belgium goods in connection with the development plans of the government of India. The loans are repayable over a period of 17 to 20 years and carry rate of interest between 2-3 per cent.

#### XVIII. Loans from France

The government of France have so far extended 19 credits aggregating FF 1718 million. Twelve credits amounting of FF 1460 million are for import of raw materials, components and capital machinery etc, from France. The remaining seven credits for FF 258 million are cash credits towards Debt Relief. The credits are repayable over a period of 10 to 25 years.

#### XIX. Loans from Hungary

The government of Hungarian People's Republic extended a credit of Rs 250 million (out of which an amount of Rs 75 million was earmarked as suppliers credit) on June 15, 1966 to finance import of plant, machinery, equipment, etc. required for complete projects. The credits are to the extent of 85 per cent of the FOB value and are repayable in 10 annual instalments after the shipment of last consignment.

#### XX. Loan from Bulgaria

The government of Bul-

garia extended a credit of Rs 112.5 million on May 2, 1967 for the establishment of various industrial enterprises, of which Rs 30 million represents suppliers' credit. The credit is to the extent of 85 per cent to meet the cost of machinery of the F.O.B. value repayable in all equal yearly instalments commencing one year after the final shipment.

#### XXI. Loan from Qatar

Special Indian Rupees which were in circulation in the Gulf States of Qatar, Dubai etc., were withdrawn by these States during 1966 and 1967 and returned to the Reserve Bank of India. The amount of the rupee notes returned by these States aggregating Rs 12.87 crores has been transferred in April, 1968 to the government of India repayable in sterling. One-fifth of the loan amounting to Rs 2.58 crores was paid on the April 5, 1968. The balance is payable in eleven equal annual instalments commencing from January 1, 1969.

#### XXII. Loan from Rumania

The government of People's Republic of Rumania have so far extended two credits for Rs 455.9 million towards external assistance, designs, plant and machinery in the establishment of refinery at Gauhati and for economic and technical cooperation. The credit assistance given in April, 1968 is to the extent of 85 per cent of the FOB value repayable in 10 equal annual instalments.

#### XXIII. International Bank for Reconstruction & Development

The IBRD has been granting loans for various development projects in India since 1949. The aggregate value of the loans to the central govt. direct is \$ 673.31 million and comprise of loans for the Railways, Agricultural Machinery Project, the DVC, the Koyana Project in Maharashtra State, development of private collieries (coal Industry), Kothagudem Stage II Project in Andhra Pradesh, construction of transmission lines by various state electricity boards

## Procedure for registration with D.G.S. & D. New Delhi.

### OBJECT OF REGISTRATION

The main object of registration of firms as approved suppliers is to facilitate the location of reliable sources of supplies of various items as and when demands are received from the several Indenting Departments of the Government of India including Defence, Railways and Post and Telegraphs. It may also include purchases by the DGS & D on behalf of the State Governments and the Public Sector Undertakings. These purchases embrace practically all types of stores excluding food-stuffs and live-stock. The annual purchases made through D.G.S. & D. extend over quite a few hundred crores of rupees.

### 2. BENEFITS OF REGISTRATION:

Firms registered with DGS & D enjoy the following benefits:—

- (i) Rate Contracts and Running Contracts are normally awarded to registered firms only.
- (ii) Operational demands are normally reserved for supply by registered firms.
- (iii) Normally 80% of the quantity against express and urgent demands is reserved for supply by registered firms. Even ordinary demands are mostly covered from registered suppliers.
- (iv) Demands which are not advertised are met from registered firms.
- (v) In case of advertised demands, copies of the notice are sent to registered firms, giving them advance information of the demands.
- (vi) The State Governments and Public Undertakings at their discretion waive the requirements of Security Deposit from firms registered with D.G.S. & D.
- (vii) Registration with DGS & D raises the firms' status in business not only with Government Departments but also with foreign firms and establishments.

### 3. APPLICATION FORM

All firms in India and in foreign countries are eligible for registration. The application must be made to DGS & D, New Delhi, in the prescribed application form. Indian firms (SSI Units and Non-SSI Units) may purchase application form from DGS & D, New Delhi or Director of Supplies & Disposals Calcutta/Bombay/Madras/Kanpur on payment of Rs. 5/- either at the counter or by Money Order. Application for registration in the prescribed form should be submitted along with a Treasury Challan for Rs. 50/- in respect of Non-SSI Units and Rs. 25/- in the case of SSI Units on production of certificate by the firms from the State Director of Industries or the NSIC authorities to the effect that the units are registered with them as bonafide Small Scale/Cottage Industry Units, indicating the Revenue Head of Account—Major Head—"057- Supplies and Disposals, Minor Head "Other receipts" and sub-detailed Head "Other items".

The above rates are also applicable in respect of renewal of registration. These rates will come into force w.e.f. 1st April, 1975.

### 4. CATEGORIES OF REGISTRATION.

- (i) Manufacturers.
- (ii) Sole Selling Agents/Sole Distributors of Manufacturers registered.
- (iii) Stockists (a) of Imported stores.  
(b) of indigenous stores such as Timber, Hides and Skins and Cotton Waste.
- (iv) (a) Foreign firms who are manufacturers, and  
(b) Accredited agents in India of foreign firms registered.

It pays to get registered as approved supplier with the Directorate General of Supplies & Disposals.

davp 74/499

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**TAMIL NADU SMALL INDUSTRIES DEVELOPMENT  
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*Central and Registered Office:*

**TAMIL NADU SMALL INDUSTRIES DEVELOPMENT CORPORATION LIMITED**  
122, ANNA SALAI. MADRAS - 6.

TELEGRAM: BHARCOMIND NEW DELHI

Tele No. 385721 (Secretary—Direct)  
385743 (Sales and Liaison)  
385710 (General)

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Nagda, Thana, Rajpura, Nanjangud.

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**SAFE, QUICK AND ECONOMIC HANDLING CARGO**

*FACILITIES OFFERED*

- ◆ sheltered harbour
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- ◆ wide aprons
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- ◆ fumigation facilities
- ◆ bulk storage for edible oils
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- ◆ quick turn-round of ships
- ◆ moderate charges

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**MADRAS PORT TRUST**

**SOUTH BEACH ROAD  
MADRAS-600001  
INDIA**

**Telex : 041 - 331**

**Cable : PORTRUST**

and agencies, expansion of tele-communications and for development of seeds in Tarai Region of UP etc. (some of these loans have already been repaid.) The World Bank operates on commercial basis and the interest is intended to cover its cost of borrowings. The interest rates vary between 7-8 per cent. The period of loans varies from 10 to 30 years generally.

#### XXIV. International Development Association

The International Development Association (IDA) an affiliate of IBRD has been providing capital to developing countries on terms which are more flexible and bear less heavily on their balance of payments position. It has up to the end of December, 1974 extended credits to the government of India totalling \$ 3015.1 million for various capital projects such as construction of National Highways, Irrigation and Power Projects including those for the DVC and Koyna Project, Drainage Project, Development of Bombay Port, Development of Telecommunications, Industrial Imports, Railway Projects, Power Transmission, Agricultural Credit Projects in different States, Cochin II Fertilizer, Wheat Storage and Agricultural Aviation, Gorakhpur Fertilizer Expansion, Agricultural Marketing, Population, Shipping and Education Projects and Calcutta Urban Development Project etc. These credits are repayable in 80 semi-annual instalments, repayment commencing after a moratorium of 10 years. These carry no interest but only a Service Charge of  $\frac{3}{4}$  of one per cent p.a. to meet administrative cost.

#### XXV. Miscellaneous Credits

The repayment of miscellaneous credits would amount to Rs. 3.10 crores during 1974-75 and Rs 0.94 crores during 1975-76

#### XXVI. New Credits

In addition to the various loans mentioned above, draws from new credits are

expected to amount to Rs. 248.05 crores during 1975-76.

### B—Grants

#### 1. Assistance under the Colombo Plan

Assistance under the Colombo Plan, in the form of equipment, materials, etc. and services of experts, is received mainly from Australia, Canada, Japan, New Zealand and the United Kingdom. This includes grants in kind in the shape of raw materials for industry, equipment for dairy development, equipment for College of Engineering, Delhi, Tea Research Association, Central Mechanical Engineering Research Institute, Tata Memorial Centre, Post-Graduate Institute of Medical Research, Chandigarh, Indian Institute of Technology, Jawaharlal Institute of Post-Graduate Medical Education and Research, Pondicherry, non-project non-commodity imports for private sector, etc. Assistance is also currently being received from Australia for sheep breeding farm at Hissar, and Barapetta and for the Modern Bakeries (India), Ltd. Japan is providing assistance for the Dandakaranya Agricultural Development Project and also in the field of Leprosy Control.

Canada is assisting India for importing modern mining technology to miners at the Khetri Copper Project, Rajasthan. They are also assisting in equipping National Institute of Oceanography's first Oceanographic Research Vessel *Gaveshani*. The UK government have agreed to assist India through the Indo-UK Dry land Farming Project at Indore. The assistance for this project will comprise of expert services and equipment spread over a period of five years.

#### II. Assistance from the USA

##### Grants Under PL 480

A sum of Rs 16.40 crores being the unspent balance in the 'Transition Account' of US government in the Public Account was transferred to the

Consolidated Account of India in July, 1974 has been reckoned as a grant receipt in the RE 1974-75. No grant is expected during 1975-76.

#### Grants from US Aid

US Aid had extended in June, 1970, a grant of \$ 20 million for Family Planning Programme. An amount of \$1.70 million was available under this grant and has been fully utilised during the year 1974-75.

#### III. Assistance from the Sweden, Norway, Federal Republic of Germany New Zealand, Ireland and Denmark.

Under an agreement signed in May, 1972, Sweden is supplying free of cost 20,000 tons of paper valued at Rs 35 million. The sale proceeds of the paper are to be utilised for development schemes included in the five year Plan. Sweden is also providing the services of Swe-

dish experts, equipment and supplies and training awards for Indian personnel sent for training in Sweden. A sum of Rs 59 lakhs and Rs 30 lakhs has been assumed as assistance in 1974-75 and 1975-76 respectively.

The government of Norway has proposed to provide development assistance to the extent of N. Kr. 160 million during the period 1973 to 1976 in various fields such as development of fishing industry, Post Partum Programme / Mother - Child Health Programme, supply of fertilisers and other equipments for fisheries. Details of the proposals will be worked out from time to time between India and Norwegian authorities.

Federal Republic of Germany continued to extend technical assistance in the shape of equipment, materials and services of experts to the various Indo-German projects in the country

## TO MEET HER HALF-WAY

The capital of Andhra Pradesh — Hyderabad — has in recent years become the focal-point of vigorous industrial development, south of the ageless Vindhya. The location of many a prestigious project like the Bharat Heavy Electricals, the Indian Drugs and Pharmaceuticals, a unit of the Hindustan Machine Tools, the Electronics Corporation of India, and the Hindustan Aeronautics to mention a few of the central Public Sector units and the Republic Forge Company and the Indo-Nippon Precision Bearings in the State Public Sector, besides numerous projects in the joint and the private sectors, testifies to the growing attraction of Hyderabad for the location of new industrial ventures.

During 1973-74, the Government of India have granted industrial licences for fifty industries — in the large-scale sector — involving a total outlay of Rs. 161.67 crores, with an employment potential of 17,000 persons. Indeed, this represents a substantial progress considering the fact that during 1972-73 licences were given to 60 industries involving an investment of Rs. 67 crores.

Andhra Pradesh extends a warm welcome to entrepreneurs to break fresh ground here. Today in this State opportunity is looking out for men. It is hoped there will be enough people to meet her half-way.

THE DIRECTOR OF INFORMATION  
AND PUBLIC RELATIONS  
GOVT. OF ANDHRA PRADESH.



and facilities for training of Indian nationals in various technical fields in West Germany. A sum of Rs 2.56 crores towards the cost of TV equipment to be received in 1975-76 has been assumed in the budget of 1975-76.

The government of Ireland have provided cash assistance to meet the foreign exchange cost of the import requirements of the Regional Sophisticated Instrumentation Centre at the IIT, Madras to the extent of £ 150,000 in 1974-75.

The government of Denmark continues to provide considerable assistance for Animal Husbandry Project in India, Cancer Control Project in

Kerala and Tool Room Projects in Bangalore. The development assistance for new projects would be for the setting up of an Abattoir in Mysore and for PTC Leather Project.

Governments of Denmark and New Zealand have also provided assistance by way of equipment and frozen semen for production of high yielding cross-breed milk cattle in large number in selected milk-shed areas and intensive cattle development project areas by intensive cross-breeding of local cows with use of imported semen from superior bulls of breeds like Jersey, Holstein etc. and for strengthening the activities of Frozen Semen Bank, Hessarghatta and supply to cattle breeding units

in different states—Rs 25 lakhs from Denmark and Rs 10 lakhs from New Zealand have been assumed as their assistance in 1975-76.

#### IV. Assistance from Canada

Grant assistance from Canada to be received during 1974-75 would amount to C\$ 41.70 million consisting of (i) commodity assistance in the form of supply of rapeseed/oil worth C\$ 16.70 million and (ii) wheat worth C\$ 25.00 million. Grant assistance during 1975-76 is expected to be of the order of C\$ 15.20 million, consisting of C\$ 15.0 million for rapeseed/oil and C\$ 0.20 million to cover the costs of the supplier's assistance in the installation and commissioning of the equipment in the Kundah powerhouses (Stage IV Extension). Credit for Rs 13.74 crores in the revised and for estimates Rs 12.54 crores in the budget estimates for 1975-76 on this account has been assumed on the revenue side.

#### V World Bank/SIDA

Under an agreement with International Development Association (IDA) and SIDA signed on June 14, 1972 a grant of \$ 10.6 million from SIDA and a credit of \$ 21.2 million from IDA will be made available for the India Population Project for intensification of Family Planning Programme, Rs. 2.03 crores and Rs 2.10 crores respectively have been assumed in RE 74-75 and BE 75-76 on this account.

#### V. UN and EEC

Assistances to the extent of Rs 20 crores from EEC in RE as well as in BE 75-76 and Rs 23 crores from UN in 75-76 are expected to be received as emergency relief for the most seriously affected developing countries.

#### VII. Assistance under the United Nations Development Programme (UNDP)

Technical assistance is received by India under the

United Nations Development Programme (UNDP) in the form of provision of the services of experts and equipment and training facilities for Indian personnel abroad.

2. Technical assistance was earlier received from UNDP on project to project basis. However, with effect from January 1, 1972 a new system of "Country Programme" has been introduced. This involves a time-framed programme approach and the programming of UNDP assistance at the country level on the basis of an Indicative Planning Figure constituting an order of magnitude of the resources expected to be available from UNDP during the period covered by the Country Programme.

3. The UNDP at its governing council session held in June, 1972 has approved the Country Programme for India, with an Indicative Planning Figure of \$ 50.00 million for five-year period 1972—76. The actual deliveries received in 1972 and 73 amounted \$14.5 million. The UNDP projects in pipeline, awaiting approval are in the order of \$ 16.37 million.

#### VIII. Other Assistance

The Ford Foundation, a private non-government philanthropic Organisation, has been providing assistance to India's development activities coinciding with five year Plans. The assistance, is in the form of training of project personnel abroad, provision of equipment not indigenous available and also in some cases of experts. Grants worth \$2.29 million this year and \$ 2 million next year are expected to be received. Assistance is also received from certain specialised agencies of the United Nations Organisation such as United Nations Technical Assistance Administration, United Nations Special Fund, United Nations Children's Emergency Fund etc.

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**AND A NET-NETWORK OF BRANCHES IN INDIA ALSO FOREIGN OPERATIONS IN**

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Kuala Lumpur (Malaysia)  
Penang (Malaysia)  
Singapore  
Dubai (Arabian Gulf)

Hong Kong  
Kabul (Afghanistan)  
Kenya  
Kuwait  
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(Victoria)  
Mauritius

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AND  
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# **India Tourism Development Corporation**

Created in 1966 to establish a solid infrastructure for international tourism, ITDC is today the largest accommodation chain in the country—the only organisation with nation-wide facilities stretching from deluxe hotels to inexpensive Travellers Lodges. ITDC's transport network is co-extensive with this, the only one operating throughout India. Publicity and publication services by ITDC support tourism promotion activities abroad and at home. Ancillary facilities include entertainment and Duty Free Shops.

## A Review 1969-74

|                          |                                                | (Rs in lakhs) |         |         |         |         |
|--------------------------|------------------------------------------------|---------------|---------|---------|---------|---------|
|                          |                                                | 1969-70       | 1970-71 | 1971-72 | 1972-73 | 1973-74 |
| <b>Financial Aspects</b> | Paid-up Capital                                | 237.91        | 596.84  | 721.84  | 901.84  | 1051.84 |
|                          | Gross Block including Capital-work-in-progress | 163.61        | 1001.04 | 1270.84 | 1646.69 | 1954.33 |
|                          | Turnover                                       | 111.21        | 565.13  | 655.80  | 934.46  | 1088.55 |
|                          | Gross Profit                                   | 11.71         | 110.01  | 118.56  | 187.94  | 217.82  |
|                          | Net Profit                                     | 2.65          | 22.56   | 1.69    | 26.89   | 38.16   |
|                          | Gross Return on Equity Capital                 | 4.92%         | 18.43%  | 16.42%  | 20.84%  | 20.71%  |
|                          | Estimated Foreign Exchange Earnings            | 25.00         | 295.00  | 310.00  | 420.00  | 525.00  |
|                          | Internal Resources Generated                   | 9.07          | 72.96   | 95.29   | 146.07  | 159.94  |
| <b>Physical Aspects</b>  | <b>Accommodation</b>                           |               |         |         |         |         |
|                          | Rooms                                          | 135           | 1251    | 1505    | 1718    | 1816    |
|                          | <b>Transport</b>                               |               |         |         |         |         |
|                          | Cars & Coaches                                 | 71            | 140     | 150     | 204     | 205     |
|                          | <b>Sound &amp; Light Shows</b>                 | 1             | 1       | 1       | 3       | 3       |

### Fourth Plan Highlights

- Foreign exchange earnings estimated at Rs. 15 crores.
- Plan utilization 96% of ITDC's Rs. 12.77 crore outlay.
- New Accommodation  
11 new units, 600 new rooms at **Akbar Hotel, Outab Hotel**, New Delhi; **Hotel Ashoka**, Bangalore; **Kovalam Grove; Temple Bay**, Mahabalipuram, **Varanasi Hotel; Khajuraho Hotel; Laxmi Vilas Palace Hotel**, Udaipur; **Aurangabad Hotel; Hassan Motel; Jammu Motel**.
- More Transport  
15 new units at Jaipur, Patna, Madras, Srinagar, Khajuraho, Aurangabad, Hyderabad, Agra, Bombay, Udaipur, Bodhgaya, Bangalore, Kovalam, Calcutta and Varanasi. Fleet strength 205.
- Two new Sound & Light Shows : Sabarmati Ashram, Shalimar Gardens.
- A new Duty Free Shop at Madras.

### Achievements 1973-74

Turnover up from Rs 934.46 lakhs in 1972-73 to Rs 1088.55 lakhs in 1973-74.

Net profit up from Rs 26.89 lakhs to Rs 38.16 lakhs.

Foreign exchange earnings rise from Rs 420.00 lakhs to Rs 525.00 lakhs.

| <b>HOTELS</b> |                  | <b>BEACH RESORTS</b> |                      | <b>MOTELS</b>      |                            | <b>CAR RENTAL &amp; TOURS</b> |           |
|---------------|------------------|----------------------|----------------------|--------------------|----------------------------|-------------------------------|-----------|
| New Delhi     | Aurangabad       | Mysore               | Lalitha Mahal        | Hassan             | Hassan Motel               | Agra                          | Khajuraho |
| Ashoka Hotel  | Aurangabad Hotel | Palace Hotel         | Kovalam              | Jammu              | Jammu Motel                | Bangalore                     | Kovalam   |
| Akbar Hotel   | Bangalore        | Udaipur              | Kovalam Palace Hotel | Plus 15 Travellers | Lodges around the country. | Bodhgaya                      | Madras    |
| Outab Hotel   | Hotel Ashoka     | Laxmi Vilas          | Kovalam Grove        |                    |                            | Calcutta                      | Mysore    |
| Hotel Janpath | Calcutta         | Palace Hotel         | Mahabalipuram        |                    |                            | Hyderabad                     | New Delhi |
| Hotel Ranjit  | Airport Hotel    | Varanasi             | Temple Bay           |                    |                            | Jaipur                        | Patna     |
| Lodhi Hotel   | Khajuraho        | Varanasi Hotel       |                      |                    |                            |                               | Srinagar  |
|               | Khajuraho Hotel  |                      |                      |                    |                            |                               | Udaipur   |
|               |                  |                      |                      |                    |                            |                               | Varanasi  |

# ***Do You Know***

- i) that different species of wood, hitherto used only as firewood, are now used as raw material in the manufacture of RAYON-  
GRADE PULP?
- ii) that GWALIOR RAYONS, MAVOOR, was the first and foremost to find out the suitability of such species of wood for the manufacture of Rayon-grade Pulp?
- iii) that MURUKKU (*Erythrina Indica*) and UPPOOTHY (*Macarranga Peltata*), among those woods, are outstandingly good as raw material for Pulp?
- iv) that GWALIOR RAYONS, MAVOOR, will be pleased to receive offers for such species of wood for producing Rayon-grade Pulp?

## ***Contact***

### **THE GWALIOR RAYON SILK MFG. (WVG.) CO. LTD., (PULP DIVISION)**

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# External Assistance (Statement of Receipts)

Annexure I

(In lakhs of Rupees)

| Details of Loans                                         | Amount<br>of<br>loans<br>authorised | Actuals<br>up to<br>1965-66 | Actuals<br>up to<br>1968-69 | Actuals<br>1969-70 | Actuals<br>1970-71 | Actuals<br>1971-72 | Actuals<br>1972-73 | Actuals<br>1973-74 | Revised<br>1974-75 | Estimated balance as on 31-3-75 at post devaluation rate of exchange | Budget<br>1975-76 |
|----------------------------------------------------------|-------------------------------------|-----------------------------|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|----------------------------------------------------------------------|-------------------|
| 1                                                        | 2                                   | 3                           | 4                           | 5                  | 6                  | 7                  | 8                  | 9                  | 10                 | 11                                                                   | 12                |
| COUNTRIES                                                |                                     |                             |                             |                    |                    |                    |                    |                    |                    |                                                                      |                   |
| —Loans from U.S.A. :                                     |                                     |                             |                             |                    |                    |                    |                    |                    |                    |                                                                      |                   |
| (i) American Wheat Loans                                 | 90.31                               | 90.31                       | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (ii) Development Assistance Loans                        | 61.91                               | 61.91                       | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (iii) D.L.F./A.I.D. Loans                                | 18,93,12*                           | 6,65,28                     | 6,24,98                     | 1,11,42            | 1,84,87            | 1,52,54            | 37,93              | 63,00              | 30,56              | 47,22                                                                | 9,82              |
| (iv) Asian Economic Development Fund Loan                | 8.74                                | 8.46                        | 39                          | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (v) P.L. 480 Rupee Loans                                 | 15,24,00                            | 5,28,85                     | 7,71,40                     | 60,50              | 50,00              | ...                | 12,12              | ...                | ...                | ...                                                                  | ...               |
| (vi) P.L. 480 Convertible Local Currency Credit          | 3,30,35                             | ...                         | 1,03,88                     | 62,00              | 44,40              | 1,03,09            | 4,46               | ...                | ...                | ...                                                                  | ...               |
| (vii) U.S. Export Import Bank Loans :                    |                                     |                             |                             |                    |                    |                    |                    |                    |                    |                                                                      |                   |
| (a) First Loan                                           | 71.43                               | 71.43                       | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (b) Second Loan                                          | 23.81                               | 23.81                       | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (c) Third Loan                                           | 11.90                               | 11,90                       | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (d) Fourth Loan                                          | 11.90                               | 3,36                        | 12,84                       | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (e) Credit for Diesel Loco Works, Varanasi (I Tranche)   | 9.05                                | 8,71                        | 75                          | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (f) Credit for Diesel Loco Works, Varanasi (II Tranche)  | 8,10                                | 7,29                        | 1,28                        | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (g) Credit for Diesel Loco Works, Varanasi (III Tranche) | 9,57                                | ...                         | 9,64                        | 4                  | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (h) Fifth Loan                                           | 15,00@                              | ...                         | ...                         | 4,02               | 10.98              | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (i) Loans to Air India :                                 |                                     |                             |                             |                    |                    |                    |                    |                    |                    |                                                                      |                   |
| First Loan                                               | 2,29                                | 2,29                        | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| Second Loan                                              | 4,53                                | 4,53                        | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (j) Sixth Loan                                           | 11,25@                              | ...                         | ...                         | ...                | 91                 | 9,67               | ...                | ...                | ...                | ...                                                                  | ...               |
| (viii) Debt Relief                                       | 21,86@                              | ...                         | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (ix) Debt Relief (1974-75)                               | 33,75@                              | ...                         | ...                         | ...                | ...                | ...                | ...                | ...                | 33,75<br>4,81(b)   | ...                                                                  | 80(b)             |
| Total                                                    | 41,42,87                            | 14,88,13                    | 15,25,16                    | 2,37,98            | 2,91,16            | 2,65,30            | 54,51              | 63,00              | 69,12              | 47,22                                                                | 10,62             |
| I. — Loans from U.S.S.R. :                               |                                     |                             |                             |                    |                    |                    |                    |                    |                    |                                                                      |                   |
| (i) Bhilai Loan                                          | 64,74                               | 64,74                       | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (ii) Industrial Enterprises                              | 59,53                               | 44,51                       | 1,99                        | 36                 | 30                 | 21                 | 1                  | 1                  | 1                  | 20,72                                                                | 5                 |
| (iii) Drugs Credit                                       | 9,52                                | 9,46                        | 8                           | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (iv) Barauni Credit                                      | 11,91                               | 11,31                       | 55                          | 2                  | ...                | 1                  | ...                | ...                | ...                | ...                                                                  | ...               |
| (v) 337.5 million Rouble Credit                          | 1,78,58                             | 1,33,55                     | 23,60                       | 3,2                | 11,4               | 61                 | 56                 | 69                 | 1,50               | 38,17                                                                | 2,00              |
| (vi) 112.5 million Rouble Credit                         | 59,53                               | 18,49                       | 24,54                       | 2,14               | 3,26               | 1,07               | 2,64               | 10,72              | 5,00               | ...                                                                  | 5,00              |
| (vii) Bokaro Credit                                      | 1,05,82                             | ...                         | 72,08                       | 43,53              | 31,18              | 8,44               | 4,28               | 87                 | 1,20               | 5,08                                                                 | 1,20              |
| (viii) 300 million Rouble Credit                         | 2,50,00@                            | ...                         | 13,64                       | 48                 | 87                 | 3,69               | 1,03               | 1,50               | 8,00               | 2,20,80                                                              | 12,00             |
| Total                                                    | 7,39,63                             | 2,82,06                     | 1,36,48                     | 49,55              | 36,75              | 14,03              | 8,52               | 13,79              | 15,71              | 2,84,77                                                              | 20,25             |
| II—U.K. Credits:                                         |                                     |                             |                             |                    |                    |                    |                    |                    |                    |                                                                      |                   |
| (i) U.K. Government Loans :                              |                                     |                             |                             |                    |                    |                    |                    |                    |                    |                                                                      |                   |
| (i) Durgapur Credit                                      | 20,00                               | 20,00                       | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (ii) Second E.C.G.D. Credit                              | 38,00                               | 38,00                       | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (iii) U.K. India (Oil Pipe Line) Credit                  | 4,00                                | 4,00                        | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (iv) U.K. India (General) Credit, 1959                   | 25,33                               | 25,33                       | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (v) First U.K. India (General) Credit, 1960              | 13,33                               | 13,33                       | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |
| (vi) Second U.K. India (General) Credit, 1960            | 6,67                                | 6,67                        | ...                         | ...                | ...                | ...                | ...                | ...                | ...                | ...                                                                  | ...               |

Rs. 8,99,00 lakhs at pre-devaluation rate of exchange and Rs. 9,94,12 lakhs at post-devaluation rate of exchange.

NOTES: (i) Figure shown under Columns 2 to 4 of this statement are at pre-rupee devaluation rate (except where otherwise specified) and figures in later columns are at post-rupee devaluation rate.

(ii) Figures shown in Columns 2 to 10 are departmental actuals.

@ at post-devaluation rate of exchange.

(b) Exchange variations.

| 1                                                                                       | 2      | 3     | 4     | 5    | 6    | 7    | 8    | 9   | 10  | 11  |
|-----------------------------------------------------------------------------------------|--------|-------|-------|------|------|------|------|-----|-----|-----|
| (vii) First U.K. India (General) Credit, 1961                                           | 13,33  | 13,33 | ...   | ...  | ...  | ...  | ...  | ... | ... | ... |
| (viii) U.K. India (Five-Year Plan) Credit, 1961                                         | 40,00  | 37,19 | 4,15  | ...  | ...  | ...  | ...  | ... | ... | ... |
| (ix) Second U.K. India (General) Credit, 1961                                           | 6,67   | 6,67  | ...   | ...  | ...  | ...  | ...  | ... | ... | ... |
| (x) First U.K. India (General) Credit, 1962                                             | 13,33  | 10,42 | 4,41  | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xi) U.K. India (Durgapur Extension) Credit, 1962                                       | 29,33  | 15,48 | 7,01  | 2,24 | 1,47 | 59   | 2,05 | ... | ... | ... |
| (xii) Second U.K. India (General) Credit, 1962                                          | 6,67   | 6,67  | ...   | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xiii) U.K. India (Five-Year Plan) Credit, 1962                                         | 17,33  | 9,83  | 8,74  | 97   | ...  | ...  | ...  | ... | ... | ... |
| (xiv) U.K. India (Steel) Credit, 1963                                                   | 4,67   | 4,27  | 61    | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xv) First U.K. India (General) Credit, 1963                                            | 13,33  | 13,33 | ...   | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xvi) Second U.K. India (General) Credit, 1963 (Kipping Loan I)                         | 5,33   | 2,19  | 3,34  | 1,43 | 56   | ...  | ...  | ... | ... | ... |
| (xvii) First U.K. India (General) Credit, 1964                                          | 6,67   | 6,67  | ...   | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xviii) First U.K. India (Bhopal) Credit, 1964                                          | 3,33   | 1,36  | 2,90  | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xix) First U.K. India (Five Year Plan) Credit, 1964                                    | 6,67   | 1,68  | 4,79  | 81   | 1,49 | ...  | ...  | ... | ... | ... |
| (xx) Second U.K. India (General) Credit, 1964                                           | 13,33  | 13,33 | ...   | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xxi) Second U.K. India (Five Year Plan) Credit, 1964 (Oil India Ltd)                   | 2,00   | ...   | 2,93  | 13   | ..   | ...  | ...  | ... | ... | ... |
| (xxii) Third U.K. India (Five Year Plan) Credit, 1964                                   | 2,03   | ...   | 1,54  | 99   | 34   | ...  | ...  | ... | ... | ... |
| (xxiii) Fourth U.K. India (Five Year Plan) Credit, 1964                                 | 1,33   | ...   | 95    | 94   | ...  | ...  | ...  | ... | ... | ... |
| (xxiv) Third U.K. India (General) Credit, 1964 (Loan II)                                | 5,33   | ...   | 5,39  | 1,70 | 48   | ...  | ...  | ... | ... | ... |
| (xxv) Fifth U.K. India (Five Year Plan) Credit, Kipping 1964 (For Singareni Collieries) | 1,67   | 40    | 1,57  | 24   | ...  | ...  | ...  | ... | ... | ... |
| (xxvi) Second U.K. India (Bhopal) Credit, 1964                                          | 2,67   | 17    | 3,55  | 11   | ...  | ...  | ...  | ... | ... | ... |
| (xxvii) Sixth U.K. India (Five Year Plan) Credit, 1964                                  | 4,30   | ...   | 5,97  | 21   | ...  | ...  | ...  | ... | ... | ... |
| (xxviii) First U.K. India (General) Credit, 1965                                        | 6,67   | 6,18  | 44    | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xxix) U.K. India (Five Year Plan) Credit, 1965                                         | 67     | 19    | 65    | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xxx) Second U.K. India (General) Credit, 1965                                          | 6,67   | 6,67  | ...   | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xxxi) U.K. India (General Purpose) Loan, 1965                                          | 13,33  | 13,33 | ...   | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xxxii) U.K. India (Non-Project) Loan, 1965 (III Kipping Loan)                          | 5,33   | 9     | 6,33  | 34   | 33   | 78   | ...  | ... | ... | ... |
| (xxxiii) U.K. India Food Emergency Loan, 1966                                           | 10,00  | ...   | 5,98  | 94   | 23   | 61   | ...  | ... | ... | ... |
| (xxxiv) First U.K. India (Bhopal) Loan, 1966                                            | 5,37   | ...   | 7,64  | 43   | 41   | 49   | ...  | ... | ... | ... |
| (xxxv) U.K. India (General Purpose) Loan, 1966                                          | 13,33  | ...   | 24,34 | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xxxvi) First U.K. India (Non-Project) Loan, 1966 (IV Kipping Loan)                     | 5,33   | ...   | 1,36  | 1,09 | 54   | 93   | ...  | ... | ... | ... |
| (xxxvii) Second U.K. India (Non-Project) Loan, 1966                                     | 28,35@ | ...   | 28,35 | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xxxviii) Second U.K. India (Bhopal) Loan, 1966                                         | 4,00@  | ...   | 2,63  | 1,95 | 57   | 25   | ...  | ... | ... | ... |
| (xxxix) U.K. India Sindri Loan, 1966                                                    | 36@    | ...   | ...   | 9    | 9    | 13   | ...  | ... | ... | ... |
| (xl) U.K. India Non-Project Loan, 1967 (V Kipping Loan)                                 | 12,60@ | ...   | ...   | 2,44 | 4,09 | 3,45 | 2,62 | ... | ... | ... |
| (xli) U.K. India Debt Refinancing and General Purpose Loan, 1967                        | 25,20@ | ...   | 25,20 | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xlii) U.K. India General Purpose Loan, 1967                                            | 21,60@ | ...   | 21,60 | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xliii) U.K. India General Purpose Loan, 1968                                           | 15,30@ | ...   | 15,30 | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xliv) U.K. India Debt Refinancing Loan, 1968                                           | 13,50@ | ...   | 13,50 | ...  | ...  | ...  | ...  | ... | ... | ... |
| (xlv) U.K. India—Capital Investment Loan, 1968                                          | 15,30@ | ...   | ...   | 11   | 4,39 | 7,96 | 2,84 | ... | ... | ... |
| (xlvi) U.K. India—Non-Project Loan, 1968 (VI Kipping Loan)                              | 12,60@ | ...   | ...   | 4,40 | 4,24 | 2,66 | 1,33 | 4   | 15  | ... |
| (xlvii) U.K. India—Mixed Project Loan, 1968                                             | 3,60@  | ...   | ...   | ...  | 2,10 | 1,50 | ...  | ... | ... | ... |

@ at post-devaluation rate of exchange.

# India Foils at work



## The Big Little Help In The Packaging Industry

The food and dairy, pharmaceutical, toiletry and cigarette industries rely on foil packaging—to protect products and please customers.

All those products up there have one thing in common : aluminium foil. Aluminium foil used either as a wrapper or pouch, bottle cap or tagger top, helps keep the products fresh, tasty and wholesome.

Aluminium foil comes from India Foils—the people who pioneered and developed the foil industry in this country by discovering new and improved uses of foil.

Right from the start, India Foils put their research, skill, knowledge of Indian conditions and know-how of the latest foil technology to work—developing new directions in packaging.

Aluminium foil today performs a variety of packaging functions in a wide range of industries.

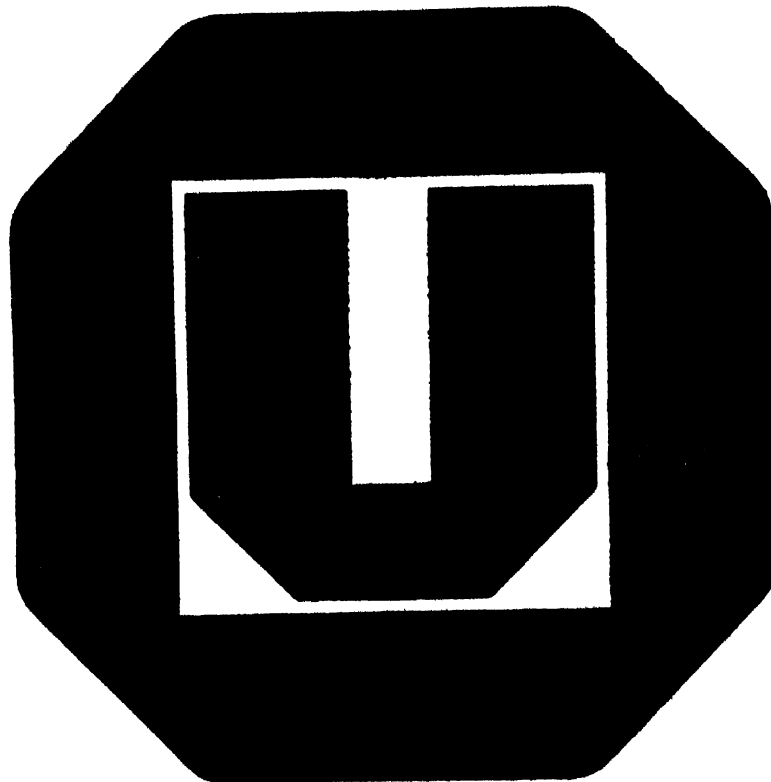


### India Foils Limited

(Incorporated in Great Britain,  
Liability of Members Limited)  
4, Mangoe Lane, Calcutta-1  
Calcutta Bombay New Delhi  
Bangalore Cochin

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**United  
Commercial Bank** Helping people to help  
themselves—profitably

UCOC-123



|                                                              | 1               | 2              | 3              | 4            | 5            | 6            | 7              | 8              | 9              | 10             | 11           | 12  |
|--------------------------------------------------------------|-----------------|----------------|----------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|--------------|-----|
| (xlviii) U.K. India—General Purpose Loan, 1968               | 2,70@           | ...            | 2,70           | ...          | ...          | ...          | ...            | ...            | ...            | ...            | ...          | ... |
| (xlix) U.K. India—Loan for I.C.I.C.I. 1968                   | 1,80@           | ...            | ...            | ...          | 27           | 58           | 70             | 24             | ...            | ...            | ...          | ... |
| (i) U.K.—India Debt Refinancing Loan, 1969                   | 13,50@          | ...            | ...            | 13,50        | ...          | ...          | ...            | ...            | ...            | ...            | ...          | ... |
| (ii) U.K.—India Maintenance Loan, 1969                       | 28,80@          | ...            | ...            | 18,38        | 10,42        | ...          | ...            | ...            | ...            | ...            | ...          | ... |
| (iii) U.K.—India Capital Investment Loan, 1969               | 13,50@          | ...            | ...            | ...          | 4,99         | 8,51         | ...            | ...            | ...            | ...            | ...          | ... |
| (liii) U.K. India—India Mixed Project Loan 1969              | 3,60@           | ...            | ...            | ...          | 2,97         | 63           | ...            | ...            | ...            | ...            | ...          | ... |
| (liv) U.K.—India Mixed Imports Loan, 1969 (VII Kipping Loan) | 7,20@           | ...            | ...            | ...          | 1,17         | 1,53         | 2,29           | 1,27           | 22             | 72             | 72           | ... |
| (lv) I.C.I.C.I. Loan, 1969                                   | 1,80@           | ...            | ...            | ...          | ...          | ...          | ...            | 1,46           | 34             | ...            | ...          | ... |
| (lvi) First Maintenance Loan, 1970                           | 16,20@          | ...            | ...            | 12,65        | 3,55         | ...          | ...            | ...            | ...            | ...            | ...          | ... |
| (lvii) Second Maintenance Loan, 1970                         | 46,80@          | ...            | ...            | ...          | 38,64        | 8,15         | ...            | ...            | ...            | ...            | ...          | ... |
| (lviii) Durgapur, 1970                                       | 5,58@           | ...            | ...            | ...          | 42           | 1,58         | 31             | 26             | 11             | 2,91           | 1,94         | ... |
| (lix) Debt Relief Loan, 1970                                 | 13,50@          | ...            | ...            | 13,50        | ...          | ...          | ...            | ...            | ...            | ...            | ...          | ... |
| (lx) Mixed Project Loan, 1971                                | 5,40@           | ...            | ...            | ...          | ...          | ...          | 5,40           | ...            | ...            | ...            | ...          | ... |
| (lxi) VIIIth Kipping Loan, 1971                              | 3,60@           | ...            | ...            | ...          | ...          | ...          | ...            | 85             | 1,19           | 1,56           | 1,56         | ... |
| (lxii) Capital Investment Loan, 1971                         | 21,60@          | ...            | ...            | ...          | ...          | ...          | 3,37           | 6,06           | 2,77           | 9,40           | 9,40         | ... |
| (lxiii) I.C.I.C.I. Loan, 1971                                | 1,80@           | ...            | ...            | ...          | ...          | ...          | ...            | ...            | 1,30           | 49             | 49           | ... |
| (lxiv) Mixed Project Loan, 1971-72                           | 14,40@          | ...            | ...            | ...          | ...          | ...          | 8,01           | 6,40           | ...            | ...            | ...          | ... |
| (lxv) Capital Investment Loan, 1971-72                       | 21,60@          | ...            | ...            | ...          | ...          | ...          | ...            | 3,23           | 4,91           | 13,45          | 8,10         | ... |
| (lxvi) Debt Refinancing Loan, 1971                           | 13,50@          | ...            | ...            | ...          | ...          | 13,50        | ...            | ...            | ...            | ...            | ...          | ... |
| (lxvii) Maintenance Loan, 1971-72                            | 48,60@          | ...            | ...            | ...          | ...          | 39,60        | 9,00           | ...            | ...            | ...            | ...          | ... |
| (lxviii) Debt Relief, 1971-72                                | 14,40@          | ...            | ...            | ...          | ...          | ...          | 14,40          | ...            | ...            | ...            | ...          | ... |
| (lxix) Mixed Project Loan, 1972                              | 28,80@          | ...            | ...            | ...          | ...          | ...          | ...            | 26,93          | 1,87           | ...            | ...          | ... |
| (lxx) Maintenance Loan, 1972                                 | 60,30@          | ...            | ...            | ...          | ...          | ...          | 60,34          | ...            | ...            | ...            | ...          | ... |
| (lxxi) Capital Investment Loan, (£ 14 million)               | 25,20@          | ...            | ...            | ...          | ...          | ...          | ...            | ...            | 2,99           | 22,20          | 7,56         | ... |
| (lxxii) Mixed Project Loan (£ 18 million)                    | 32,40@          | ...            | ...            | ...          | ...          | ...          | ...            | ...            | 31,36          | 1,04           | 1,04         | ... |
| (lxxiii) Maintenance Loan, 1973-74 (£ 35 million)            | 63,00@          | ...            | ...            | ...          | ...          | ...          | ...            | 63,00          | ...            | ...            | ...          | ... |
| (lxxiv) Debt Relief (£ 8 million)                            | 14,40@          | ...            | ...            | ...          | ...          | ...          | ...            | 14,00          | ...            | ...            | ...          | ... |
| (lxxv) Capital Investment Loan 1974 (£ 2 million)            | 21,60           | ...            | ...            | ...          | ...          | ...          | ...            | ...            | ...            | 21,60          | 90           | ... |
| (lxxvi) Maintenance Loan II of 1974 (£ 30 million)           | 54,00           | ...            | ...            | ...          | ...          | ...          | ...            | ...            | 54,00          | ...            | ...          | ... |
| (lxxvii) Debt Relief for 1974-75 (£ 9.4 millions)            | 16,92           | ...            | ...            | ...          | ...          | ...          | ...            | ...            | 16,92          | ...            | ...          | ... |
| (lxxviii) Mixed Project Loan 1974 (£ 22 million)             | 39,60           | ...            | ...            | ...          | ...          | ...          | ...            | ...            | ...            | 39,60          | 39,60        | ... |
| (b) Lazard Brothers                                          | 15,33@          | 15,33          | ...            | ...          | ...          | ...          | ...            | ...            | ...            | 6,04(b)        | 3,64(b)      | ... |
| (c) Barclays Bank                                            | 4,59@           | ...            | 1,33           | 1,07         | ...          | ...          | 36             | ...            | ...            | ...            | ...          | ... |
| <b>Total</b>                                                 | <b>12,01,78</b> | <b>2,92,11</b> | <b>2,17,64</b> | <b>82,31</b> | <b>75,16</b> | <b>91,42</b> | <b>1,19,34</b> | <b>1,24,14</b> | <b>1,24,17</b> | <b>1,12,97</b> | <b>74,95</b> |     |

#### VI—Loans from Canada

|                                                                  |        |       |       |      |      |      |      |     |     |      |     |     |
|------------------------------------------------------------------|--------|-------|-------|------|------|------|------|-----|-----|------|-----|-----|
| (i) Wheat Loan                                                   | 15,71  | 15,71 | ...   | ...  | ...  | ...  | ...  | ... | ... | ...  | ... | ... |
| (ii) Rana Pratap Sagar Hydro Electric Project                    | 3,52   | 3,19  | 37    | 1    | 2    | ...  | ...  | ... | ... | ...  | ... | ... |
| (iii) Diesel Locos for Indian Railways                           | 3,39   | 3,39  | ...   | ...  | ...  | ...  | ...  | ... | ... | ...  | ... | ... |
| (iv) Rajasthan Atomic Power Project (Candu Atomic Power Project) | 31,58  | 1,71  | 20,06 | 3,67 | 2,87 | 55   | 1,03 | 9   | 1   | 17   | ... | ... |
| (v) Wind Tunnel Project                                          | 1,85   | 1,18  | 80    | 18   | 1    | 1    | ...  | ... | ... | ...  | ... | ... |
| (vi) Durgapur Alloys Steel Project (Amco Furnace)                | 87     | 42    | 53    | ...  | ...  | ...  | ...  | ... | ... | ...  | ... | ... |
| (vii) Indalco Expansion                                          | 83     | 66    | 17    | ...  | ...  | ...  | ...  | ... | ... | ...  | ... | ... |
| (viii) Kota Dam Hydro Electric Project                           | 3,89   | 41    | 2,79  | 2    | 1    | ...  | 2    | 1   | ... | 23   | ... | ... |
| (ix) Development loans :                                         |        |       |       |      |      |      |      |     |     |      |     |     |
| (a) Diesel Locos for Calcutta Port, 1966                         | 97     | ...   | 1,54  | 1    | ...  | ...  | ...  | ... | ... | ...  | ... | ... |
| (b) Diesel Locos for Railways, 1966                              | 4,86*  | ...   | 4,75  | ...  | ...  | 1,87 | ...  | ... | ... | ...  | ... | ... |
| (c) Geological Survey of India, 1967                             | 1,39*  | ...   | ...   | ...  | 21   | 21   | 11   | 32  | 4   | 52   | 42  | ... |
| (d) Iddiki Hydro Electric Power Project, 1967                    | 7,63   | ...   | ...   | ...  | 2,86 | 2,12 | 39   | 83  | 46  | 1,15 | 55  | ... |
| (e) Purchase of Fertiliser and Fertiliser Material, 1967         | 6,94*  | ...   | 6,67  | 27   | 5    | ...  | ...  | ... | ... | ...  | ... | ... |
| (f) Purchase of Industrial Commodity, 1967                       | 6,94*  | ...   | 4,36  | 1,19 | 86   | 9    | ...  | ... | ... | ...  | ... | ... |
| (g) Non Project Development Loan, 1967                           | 8,22*  | ...   | 6,87  | 1,18 | 80   | 2    | ...  | ... | ... | ...  | ... | ... |
| (h) Non Project Non-Commodities Loan, 1968                       | 14,67* | ...   | 4,60  | 2,45 | 2,45 | 1,20 | 2,52 | ... | ... | ...  | ... | ... |
| (i) Industrial Commodities Credit, 1968                          | 10,41* | ...   | ...   | 8,95 | 75   | 1    | ...  | ... | ... | ...  | ... | ... |

@At post-devaluation rates of exchange.

(b) Exchange variations.

|                                                                             | 1              | 2            | 3            | 4            | 5            | 6            | 7            | 8            | 9            | 10           | 11           | 12  |
|-----------------------------------------------------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----|
| (j) Fertilizer Credit, 1968                                                 | 10,41*         | ...          | 80           | 5,12         | 4,42         | 1            | ...          | ...          | ...          | ...          | ...          | ... |
| (k) Fertilizer Credit, 1969                                                 | 5,55*          | ...          | ...          | 45           | 2,93         | 2,62         | ...          | ...          | ...          | ...          | ...          | ... |
| (l) Non-Project Non-Commodity Loan 1969                                     | 15,47*         | ...          | ...          | 6,25         | 9,34         | 32           | ...          | ...          | ...          | ...          | ...          | ... |
| (m) Telecommunication Equipment for P & T, 1969                             | 27,75          | ...          | ...          | ...          | ...          | 5,24         | 13,71        | 3,26         | 4,11         | 1,43         | 1,43         | ... |
| (n) Non Project Commodities Loan, 1970                                      | 11,80          | ...          | ...          | ...          | 9,29         | 2,52         | ...          | ...          | ...          | ...          | ...          | ... |
| (o) Non Project Commodities Loan, 1970                                      | 9,02           | ...          | ...          | ...          | 2,77         | 6,09         | 16           | ...          | ...          | ...          | ...          | ... |
| (p) Purchase of Components for D.L.W., Varanasi                             | 4,16           | ...          | ...          | ...          | ...          | ...          | 2,34         | 39           | 28           | 6            | ...          | ... |
| (x) Rajasthan Atomic Power Project II                                       | 26,72*         | ...          | 4,14         | 5,23         | 4,60         | 4,84         | 3,36         | 1,28         | 19           | 4,55         | ...          | ... |
| (xi) Oil & Natural Gas Commission, 1971 (in three tranches C \$ 12 million) | 8,33           | ...          | ...          | ...          | ...          | ...          | 1,19         | 1,44         | 1,34         | 3,36         | 1,7          | ... |
| (xii) Purchase of Commodities, 1971                                         | 27,75*         | ...          | ...          | ...          | ...          | 19,54        | 7,81         | ...          | ...          | ...          | ...          | ... |
| (xiii) Purchase of Equip./Machinery, 1971 and 1973                          | 13,88*         | ...          | ...          | ...          | ...          | ...          | 23           | 1,71         | 1,43         | 9,97         | 1,39         | ... |
| (xiv) Fertilizer Bulk/Handling facility at Kandla                           | 2,50*          | ...          | ...          | ...          | ...          | ...          | 11           | 87           | 27           | 1,25         | 69           | ... |
| (xv) Non-Project Loan, 1972                                                 | 34,69*         | ...          | ...          | ...          | ...          | ...          | 17,74        | 13,30        | 3,65         | ...          | ...          | ... |
| (xvi) Second Satellite Earth Station                                        | 1,21*          | ...          | ...          | ...          | ...          | ...          | ...          | 93           | 28           | ...          | ...          | ... |
| (xvii) Synthetic Rubber Project                                             | 5,20*          | ...          | ...          | ...          | ...          | ...          | ...          | 59           | 44           | 4,18         | 3,21         | ... |
| (xviii) Fertilizer Loan, 1973                                               | 6,94*          | ...          | ...          | ...          | ...          | ...          | ...          | 3,05         | 3,89         | ...          | ...          | ... |
| (xix) Tamil Nadu Electricity Board, 1973                                    | 275*           | ...          | ...          | ...          | ...          | ...          | ...          | 1,98         | 77           | ...          | ...          | ... |
| (xx) Non-Project Loan,                                                      | 34,69*         | ...          | ...          | ...          | ...          | ...          | ...          | 10,61        | 17,34        | 6,73         | 6,73         | ... |
| (xxi) New Potash Agreement 1974                                             | 6,94*          | ...          | ...          | ...          | ...          | ...          | ...          | ...          | 5,55         | 1,39         | 1,39         | ... |
|                                                                             |                |              |              |              |              |              |              |              | 7,41(b)      | 332(b)       | ...          | ... |
| <b>Total</b>                                                                | <b>3,79,43</b> | <b>26,67</b> | <b>58,45</b> | <b>34,98</b> | <b>44,24</b> | <b>47,26</b> | <b>50,72</b> | <b>40,66</b> | <b>47,46</b> | <b>35,99</b> | <b>20,86</b> |     |

#### V.—Loans from Federal Republic of Germany :

|                                                                               |       |       |       |      |       |     |     |      |      |      |      |     |
|-------------------------------------------------------------------------------|-------|-------|-------|------|-------|-----|-----|------|------|------|------|-----|
| ** (i) D. M. 660 million Rourkela Credit                                      | 75,50 | 74,57 | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| ** (ii) D. M. 168 million credit                                              | 19,05 | 19,05 | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (iii) First D. M. 125.1 million Credit                                        | 14,18 | 14,18 | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (iv) Second D. M. 125.1 million Credit                                        | 14,18 | 14,18 | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (v) D. M. 98.36 million Credit—Rourkela Prolongation Credit (First)           | 11,16 | 11,16 | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (vi) D. M. 230 million Credit, 1961—Rourkela Prolongation Credit (Second)     | 27,38 | 27,38 | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (vii) D. M. 70 million Credit, 1961                                           | 8,33  | 8,33  | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (viii) D. M. 170 million Credit, 1961                                         | 20,24 | 20,24 | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (ix) D. M. 85 million Credit, 1962—Rourkela Prolongation Credit (Third)       | 10,12 | 10,12 | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (x) D. M. 100 million Credit, 1962                                            | 11,90 | 11,90 | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (xi) D. M. 264 million Credit, 1964                                           | 31,43 | 31,43 | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (xii) D. M. 400 million Credit for Rourkela Repayments                        | 47,62 | 33,14 | 20,05 | 2,01 | 45    | 4   | ... | ...  | ...  | ...  | ...  | ... |
| (xiii) D. M. 61.4 million Credit for Rourkela Steel Plant                     | 7,31  | 7,31  | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (xiv) D. M. 40 million Credit, 1964                                           | 4,76  | 3,08  | 2,32  | ...  | ...   | ... | 15  | ...  | ...  | ...  | ...  | ... |
| (xv) D. M. 28.1 million Credit, 1964                                          | 3,35  | 3,35  | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (xvi) D. M. 90 million Credit, 1965                                           | 10,71 | 10,71 | ...   | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (xvii) D. M. 55 million Credit, 1965                                          | 6,55  | 1,34  | 8,95  | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (xviii) D. M. 40 million Credit, 1965 (Selected Project I)                    | 4,76  | 2,47  | 2,20  | 4    | (—)12 | 13  | ... | 17   | 31   | 77   | 29   | ... |
| (xix) D. M. 93.6 million Credit, 1965 (Consolidation of Rourkela Liabilities) | 11,14 | 11,14 | ...   | ...  | ...   | ... | 3   | ...  | ...  | ...  | ...  | ... |
| (xx) D. M. 10 million Credit, 1965 (Extension of Neyveli Mining Scheme)       | 1,99  | 77    | 46    | 3    | 8     | 8   | ... | 1    | 5    | 4    | 4    | ... |
| (xxi) D. M. 6.4 million Credit, 1965 (Coal Washery, Sawang)                   | 76    | 10    | 69    | ...  | 9     | 20  | 1   | ...  | ...  | ...  | ...  | ... |
| (xxii) D. M. 23.5 million Credit, 1966 (Commodities V.)                       | 2,80  | 36    | 3,85  | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (xxiii) D. M. 7.25 million Credit, 1966 (Telco Tool Factory)                  | 86    | ...   | 1,03  | 7    | 12    | 14  | ... | ...  | 3    | ...  | ...  | ... |
| (xxiv) D. M. 18 million Credit, 1966 (Indian Railway I)                       | 2,15  | 39    | 2,42  | 3    | ...   | 6   | 3   | ...  | 6    | 4    | 4    | ... |
| (xxv) D. M. 60 million Credit, 1966 (Commodities V)                           | 7,14  | ...   | 10,40 | 19   | ...   | 9   | 32  | ...  | ...  | ...  | ...  | ... |
| (xxvi) D. M. 12 million Credit, 1966 (Fertilisers)                            | 1,43  | ...   | 2,27  | ...  | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |
| (xxvii) D. M. 52.16 million Credit, 1967                                      | 10,69 | ...   | 5,25  | ...  | 21    | 7   | 80  | 1,13 | 1,62 | 1,10 | 1,10 | ... |
| (xxviii) D. M. 180 million Credit, 1967                                       | 33,75 | ...   | 33,61 | 14   | ...   | ... | ... | ...  | ...  | ...  | ...  | ... |

\* At post-devaluation rates of exchange.

\*\* Due to revaluation of DM from 6-3-1961, the actual amount repaid or to be repaid is more than the amount actually drawn.

(b) Exchange variations.

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|                                                                               | 1              | 2              | 3              | 4            | 5            | 6            | 7            | 8            | 9            | 10           | 12           | 12 |
|-------------------------------------------------------------------------------|----------------|----------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----|
| (xxix) D. M. 28.25 million Credit, 1967<br>(Indian Railways II)               | 5,79*          | ...            | 2,11           | 94           | 1,74         | 20           | 41           | 1            | ...          | 14           | 14           |    |
| (xxx) D. M. 30 million Credit, 1967                                           | 26,25          | ...            | 18,67          | 6,50         | ...          | 2,41         | ...          | ...          | ...          | ...          | ...          |    |
| (xxxi) D. M. 40 million Credit, 1967                                          |                |                |                |              |              |              |              |              |              |              |              |    |
| (xxxii) D. M. 70 million Credit, 1967                                         |                |                |                |              |              |              |              |              |              |              |              |    |
| (xxxiii) D. M. 16 million Credit, 1968/<br>(Indian Railways III)              | 3,28*          | ...            | 14             | 57           | 1,18         | 56           | 78           | 13           | 8            | 16           | 16           |    |
| (xxxiv) D. M. 17.4 million Credit, 1968<br>(Neyveli Lignite Project)          | 3,49*          | ...            | 75             | 35           | 78           | 45           | 39           | 3            | 31           | 37           | 37           |    |
| (xxxv) D. M. 102 million Credit for Com-<br>modities                          | 19,13*         | ...            | 6,08           | 12,71        | 1,22         | ...          | 1            | ...          | ...          | ...          | ...          |    |
| (xxxvi) D. M. 58.94 million Credit for<br>Debt Rescheduling                   | 11,05*         | ...            | 10,83          | ...          | ...          | ...          | ...          | ...          | ...          | ...          | ...          |    |
| (xxxvii) D. M. 62 million (Debt Reschedule)                                   | 12,70*         | ...            | ...            | 12,70        | ...          | ...          | ...          | ...          | ...          | ...          | ...          |    |
| (xxxviii) D. M. 39 million Credit (Gujarat<br>Aromatic)                       | 7,99*          | ...            | ...            | 2,93         | 2,21         | 1,23         | 1,31         | 31           | ...          | ...          | ...          |    |
| (xxxix) D. M. 35 million Credit (Capital<br>Goods)                            | 7,17*          | ...            | ...            | ...          | ...          | 2,29         | 3,43         | 71           | 20           | 53           | 53           |    |
| (xl) D. M. 99 million Credit (Commo-<br>dities)                               | 20,28*         | ...            | ...            | 6,22         | 14,06        | ...          | ...          | ...          | ...          | ...          | ...          |    |
| (xli) D. M. 28.97 million Credit (Inter-<br>est Rescheduling)                 | 5,43           | ...            | ...            | 5,43         | ...          | ...          | ...          | ...          | ...          | ...          | ...          |    |
| (xlii) D. M. 101.5 million Credit, 1970                                       | 20,80*         | ...            | ...            | ...          | 3,89         | 17,70        | ...          | ...          | ...          | ...          | ...          |    |
| (xliii) D. M. 76.3 million Credit                                             | 15,63*         | ...            | ...            | ...          | 15,63        | ...          | ...          | ...          | ...          | ...          | ...          |    |
| (xliv) D. M. 25 million Credit, 1970                                          | 5,12*          | ...            | ...            | ...          | ...          | 1,04         | 2,90         | 49           | 20           | 49           | 49           |    |
| (xlv) D. M. 30 million Credit, 1969<br>(Ships)                                | 6,15*          | ...            | ...            | ...          | 3            | ...          | 33           | ...          | ...          | ...          | ...          |    |
| (xlvi) D. M. 9 million Credit, (N.L.C.)                                       | 1,84*          | ...            | ...            | ...          | ...          | 87           | 55           | 9            | 10           | 22           | 22           |    |
| (xlvii) D. M. 100 million Credit, 1971                                        | 20,49*         | ...            | ...            | ...          | ...          | ...          | 20,49        | ...          | ...          | ...          | ...          |    |
| (xlviii) D. M. 71 million Credit, 1971                                        | 14,55*         | ...            | ...            | ...          | ...          | 14,55        | ...          | ...          | ...          | ...          | ...          |    |
| (xlix) D. M. 4 million Credit, 1971                                           | 82*            | ...            | ...            | ...          | ...          | 54           | 9            | 5            | 7            | 2            | 2            |    |
| (l) D. M. 30 million Credit, 1972 (Cap.<br>Goods)                             | 6,15*          | ...            | ...            | ...          | ...          | ...          | ...          | 3,80         | 73           | 82           | 82           |    |
| (li) D. M. 21.36 mil. Credit, 1972<br>(MICO Expansion)                        | 4,38*          | ...            | ...            | ...          | ...          | ...          | ...          | 1,44         | 1,37         | 1,57         | 74           |    |
| (lii) D. M. 17.6 mil. Credit 1972 (Bihar<br>Alloy Steel Pr.)                  | 3,61*          | ...            | ...            | ...          | ...          | ...          | 5            | 2,01         | 72           | 83           | 82           |    |
| (liii) D. M. 27.1 mil. Credit, 1972 (Tyre<br>Plant)                           | 5,55*          | ...            | ...            | ...          | ...          | ...          | 10           | 3,49         | 1,45         | 51           | 33           |    |
| (liv) D. M. 4 mil. Credit, 1972 (Gujarat<br>Acetate Pr.)                      | 82*            | ...            | ...            | ...          | ...          | ...          | ...          | 31           | 20           | 30           | 30           |    |
| (lv) D. M. 80 mil. Credit, 1972 (Com-<br>modities)                            | 16,39*         | ...            | ...            | ...          | ...          | ...          | 6,98         | 9,42         | ...          | ...          | ...          |    |
| (lvi) D. M. 30 mil. Credit, 1972 (Capital<br>Goods)                           | 6,15*          | ...            | ...            | ...          | ...          | ...          | 80           | 68           | 3,69         | 1,78         | 1,78         |    |
| (lvii) D. M. 98 mil. Credit, Debt Relief                                      | 24,18*         | ...            | ...            | ...          | ...          | ...          | 24,18        | ...          | ...          | ...          | ...          |    |
| (lviii) D. M. 12 million Credit, 1971 (Tra-<br>vancore Cochim)                | 2,46*          | ...            | ...            | ...          | ...          | ...          | ...          | 51           | 1,46         | 49           | 31           |    |
| (lix) D. M. 10.9 million Ramon and<br>Demm                                    | 2,23*          | ...            | ...            | ...          | ...          | ...          | ...          | ...          | 1,02         | 1,21         | 1,03         |    |
| (lx) D. M. 14 million Gujarat Caustic<br>Soda                                 | 2,87*          | ...            | ...            | ...          | ...          | ...          | ...          | ...          | 41           | 2,46         | 82           |    |
| (lxi) D. M. 57.7 million Telco Expansion                                      | 11,82*         | ...            | ...            | ...          | ...          | ...          | ...          | ...          | ...          | 11,82        | 3,07         |    |
| (lxii) D. M. 12 million MISL                                                  | 2,46*          | ...            | ...            | ...          | ...          | ...          | ...          | ...          | ...          | 2,46         | ...          |    |
| (lxiii) D. M. 100 million Commodity Loan                                      | 20,49*         | ...            | ...            | ...          | ...          | ...          | ...          | 6,21         | 14,28        | ...          | ...          |    |
| (lxiv) D. M. 20 million Capital Loan                                          | 4,10*          | ...            | ...            | ...          | ...          | ...          | ...          | ...          | 82           | 3,28         | 1,64         |    |
| (lxv) D. M. 98 million Debt Relief, 1973<br>and                               | 24,18*         | ...            | ...            | ...          | ...          | ...          | 20,08        | ...          | ...          | ...          | ...          |    |
| (lxvi) DM 100 Million Commodity credit<br>1974 including liquidity assistance | 20,49*         | ...            | ...            | ...          | ...          | ...          | ...          | ...          | 8,20         | 12,30        | 12,30        |    |
| (lxvii) DM 15 million credit of 1974                                          | 3,07           | ...            | ...            | ...          | ...          | ...          | ...          | ...          | ...          | 3,07         | 1,02         |    |
| (lxviii) DM 130 million Debt Relief 1974                                      | 26,64          | ...            | ...            | ...          | ...          | ...          | ...          | ...          | 26,64        | ...          | ...          |    |
|                                                                               |                |                |                |              |              |              |              | 19,90        | 33.68(b)     | ...          | 14,97(a)     |    |
| <b>Total</b>                                                                  | <b>7,97,24</b> | <b>3,16,70</b> | <b>1,32,08</b> | <b>50,86</b> | <b>41,57</b> | <b>42,65</b> | <b>64,14</b> | <b>51,08</b> | <b>97,70</b> | <b>46,78</b> | <b>43,35</b> |    |

V.—Loans from Japan :

|                          |        |       |       |       |      |      |      |      |     |      |     |     |
|--------------------------|--------|-------|-------|-------|------|------|------|------|-----|------|-----|-----|
| (i) First Yen Credit     | 21,93  | 21,93 | ...   | ...   | ...  | ...  | ...  | ...  | ... | ...  | ... | ... |
| (ii) Second Yen Credit   | 45,24  | 45,12 | ...   | ...   | ...  | ...  | ...  | ...  | ... | ...  | ... | ... |
| (iii) Third Yen Credit   | 30,95  | 21,05 | 8,37  | ...   | ...  | ...  | ...  | ...  | ... | ...  | ... | ... |
| (iv) Fourth Yen Credit   | 28,57  | 6,24  | 26,84 | ...   | ...  | ...  | ...  | ...  | ... | ...  | ... | ... |
| (v) Fifth Yen Credit     | 28,57  | 2,04  | 26,47 | 12,71 | 1,48 | ...  | ...  | ...  | ... | ...  | ... | ... |
| (vi) Sixth Yen Credit    | 32,11* | ...   | 31,41 | ...   | ...  | ...  | ...  | ...  | ... | ...  | ... | ... |
| (vii) Seventh Yen Credit | 29,40* | ...   | 23,90 | 5,05  | ...  | ...  | ...  | ...  | ... | ...  | ... | ... |
| (viii) Eighth Yen Credit | 21,30* | ...   | ...   | 13,20 | 7,60 | 24   | ...  | ...  | ... | ...  | ... | ... |
| (ix) Ninth Yen Credit    | 19,22* | ...   | ...   | ...   | 8,30 | 8,59 | 1,48 | 37   | ... | ...  | ... | ... |
| (x) Food Aid             | 5,29*  | ...   | 5,29  | ...   | ...  | ...  | ...  | ...  | ... | ...  | ... | ... |
| (xi) Vizag Outer Harbour | 5,25*  | ...   | ...   | ...   | 11   | 1,69 | 13   | 99   | 74  | 1,58 | 79  |     |
| (xii) Tenth Yen Credit   | 19,04* | ...   | ...   | ...   | ...  | 7,53 | 9,11 | 1,70 | 32  | ...  | ... | ... |

\*At post devaluation rates of exchange. (b) Exchange variations

| 1                                                 | 2              | 3            | 4              | 5            | 6            | 7            | 8            | 9            | 10           | 11           | 12           |
|---------------------------------------------------|----------------|--------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| (xiii) Deep Sea Oil Exploration                   | 10,99*         | ...          | ...            | ...          | ...          | 8,24         | ...          | 2,53         | 35           | 21           | 21           |
| (xiv) Eleventh Yen Credit                         | 64,10*         | ...          | ...            | ...          | ...          | ...          | 19,40        | 27,98        | 9,69         | 7,50         | 5,82         |
| (xv) Twelfth Yen Credit                           | 27,56*         | ...          | ...            | ...          | ...          | ...          | ...          | 4,33         | 16,52        | 6,71         | 30,1         |
| (xvi) Thirteenth Yen Credit                       | 37,55*         | ...          | ...            | ...          | ...          | ...          | ...          | ...          | 6,43         | 31,12        | 17,02        |
| (xvii) Fourteenth Yen Credit                      | 37,55          | ...          | ...            | ...          | ...          | ...          | ...          | ...          | 63           | 36,92        | 10,42        |
| (xviii) Debt Relief (1974) Agreement              | 31,20*         | ...          | ...            | ...          | ...          | ...          | ...          | 31,20        | ...          | ...          | ...          |
| (xix) Debt Relief (1974-75)                       | 25,00          | ...          | ...            | ...          | ...          | ...          | ...          | ...          | 25,00        | ...          | ...          |
|                                                   |                |              |                |              |              |              |              |              | (b)18,34     |              | (b)11,03     |
| <b>Total</b>                                      | <b>5,20,82</b> | <b>96,38</b> | <b>1,22,28</b> | <b>30,96</b> | <b>17,49</b> | <b>26,29</b> | <b>30,12</b> | <b>69,10</b> | <b>78,02</b> | <b>84,02</b> | <b>48,30</b> |
| <b>VII.—Loans from Switzerland :</b>              |                |              |                |              |              |              |              |              |              |              |              |
| (i) Credit for Third Plan                         | 22,88          | 5,94         | 12,32          | 2,02         | 2,91         | 2,12         | 1,56         | 1,56         | 1,06         | 6            | 6            |
| (ii) Development Loan, 1973 for SF 35 million     | 6,43*          | ...          | ...            | ...          | ...          | ...          | ...          | ...          | 92           | 5,51         | 92           |
| (iii) Third Swiss credit 1973 for SF 49.5 million | 9,09           | ...          | ...            | ...          | ...          | ...          | ...          | ...          | 76           | 8,33         | 1,49         |
|                                                   |                |              |                |              |              |              |              |              | 1,44(b)      |              | 1,29(b)      |
| <b>Total</b>                                      | <b>38,40</b>   | <b>5,94</b>  | <b>12,32</b>   | <b>2,02</b>  | <b>2,91</b>  | <b>2,12</b>  | <b>1,56</b>  | <b>1,56</b>  | <b>4,18</b>  | <b>13,90</b> | <b>3,76</b>  |
| <b>VIII.—Loans from Czechoslovakia :</b>          |                |              |                |              |              |              |              |              |              |              |              |
| (i) First Credit for Third Plan                   | 23,10          | 12,60        | 11,05          | 2,24         | 12           | ...          | ...          | ...          | ...          | ...          | ...          |
| (ii) Second and Third Credit for Third Plan       | 1,43,00*       | ...          | 25,22          | 5,94         | 1,22         | 1,40         | 6,71         | 6,60         | 7,12         | 88,35        | 11,00        |
| <b>Total</b>                                      | <b>1,66,10</b> | <b>12,60</b> | <b>36,27</b>   | <b>8,18</b>  | <b>1,34</b>  | <b>1,40</b>  | <b>6,71</b>  | <b>6,60</b>  | <b>7,12</b>  | <b>88,35</b> | <b>11,00</b> |
| <b>IX.—Loans from Yugoslavia :</b>                |                |              |                |              |              |              |              |              |              |              |              |
| (i) First Credit                                  | 19,05          | 9,21         | 6,62           | 27           | 30           | ...          | ...          | ...          | ...          | ...          | ...          |
| (ii) Second Credit                                | 31,16*         | ...          | 8              | 10           | ...          | ...          | ...          | ...          | ...          | ...          | ...          |
| <b>Total</b>                                      | <b>50,21</b>   | <b>9,21</b>  | <b>6,70</b>    | <b>37</b>    | <b>30</b>    | <b>...</b>   | <b>...</b>   | <b>...</b>   | <b>...</b>   | <b>...</b>   | <b>...</b>   |
| <b>X.—Loans from Poland :</b>                     |                |              |                |              |              |              |              |              |              |              |              |
| (i) First Credit                                  | 23,15          | 10,96        | 2,97           | 12           | 26           | 25           | 7            | 84           | 40           | 90           | 90           |
| (ii) Second Credit                                | 5,72           | 38           | 97             | 23           | 1            | 2            | 8            | 1,45         | 1,00         | 1,31         | 1,31         |
| (iii) Third Credit                                | 9,29           | ...          | 6              | 3,82         | 2,52         | 2,15         | 40           | 6            | 6            | 22           | 22           |
| <b>Total</b>                                      | <b>38,16</b>   | <b>11,34</b> | <b>4,00</b>    | <b>4,17</b>  | <b>2,79</b>  | <b>2,42</b>  | <b>55</b>    | <b>2,35</b>  | <b>1,46</b>  | <b>2,43</b>  | <b>2,43</b>  |
| <b>XI.—Loans from Austria :</b>                   |                |              |                |              |              |              |              |              |              |              |              |
| (i) First Credit                                  | 2,38           | 2,25         | 1              | 8            | 11           | ...          | ...          | ...          | ...          | ...          | ...          |
| (ii) Second Credit                                | 1,83           | 1,40         | 60             | 1            | 3            | ...          | ...          | ...          | ...          | ...          | ...          |
| (iii) Third Credit                                | 1,90           | 1,07         | 1,01           | 1            | 12           | 8            | 1            | 1            | 1            | ...          | ...          |
| (iv) Fourth Credit                                | 1,90           | ...          | 2,89           | ...          | ...          | 2            | ...          | ...          | ...          | ...          | ...          |
| (v) Fifth Credit                                  | 3,52           | ...          | 2,69           | 64           | 12           | 1            | 4            | ...          | ...          | ...          | ...          |
| (vi) Sixth Credit                                 | 1,92           | ...          | 1,08           | 73           | 11           | ...          | ...          | ...          | ...          | ...          | ...          |
| (vii) Food Assistance Loan                        | 75             | ...          | 73             | ...          | ...          | ...          | ...          | ...          | ...          | ...          | ...          |
| (viii) Capital Repayment, 1968-69                 | 66             | ...          | 66             | ...          | ...          | ...          | ...          | ...          | ...          | ...          | ...          |
| (ix) Capital Repayment, 1969-70                   | 81*            | ...          | ...            | 81           | ...          | ...          | ...          | ...          | ...          | ...          | ...          |
| (x) Capital Repayment, 1970-71                    | 1,11*          | ...          | ...            | ...          | 1,11         | ...          | ...          | ...          | ...          | ...          | ...          |
| (xi) Capital Repayment, 1971-72                   | 66*            | ...          | ...            | ...          | ...          | 66           | ...          | ...          | ...          | ...          | ...          |
| (xii) Debt Relief                                 | 1,70*          | ...          | ...            | ...          | ...          | ...          | 1,70         | ...          | ...          | ...          | ...          |
| (xiii) Financial Aids, 1972                       | 37*            | ...          | ...            | ...          | ...          | ...          | ...          | 5            | 13           | 19           | 15           |
| (xiv) Debt Relief (1973-74)                       | 1,70*          | ...          | ...            | ...          | ...          | ...          | ...          | 1,69         | ...          | ...          | ...          |
| (xv) Debt Relief (1974-75)                        | 1,54           | ...          | ...            | ...          | ...          | ...          | ...          | ...          | 1,54         | ...          | ...          |
| (xvi) Commodity aid 1974-75                       | 59             | ...          | ...            | ...          | ...          | ...          | ...          | ...          | ...          | 59           | 15           |
|                                                   |                |              |                |              |              |              |              |              | 75 (b)       |              | 14(b)        |
| <b>Total</b>                                      | <b>23,34</b>   | <b>4,72</b>  | <b>9,67</b>    | <b>2,28</b>  | <b>1,60</b>  | <b>77</b>    | <b>1,75</b>  | <b>1,75</b>  | <b>2,42</b>  | <b>78</b>    | <b>44</b>    |
| <b>XII.—Loan from Kuwait Government :</b>         |                |              |                |              |              |              |              |              |              |              |              |
|                                                   | 34,19          | 34,19        | ...            | ...          | ...          | ...          | ...          | ...          | ...          | ...          | ...          |
| <b>XIII.—Loans from Netherlands :</b>             |                |              |                |              |              |              |              |              |              |              |              |
| (i) General Purpose Loan                          | 67,44          | 9,53         | 16,39          | 6,86         | 12,28        | 6,24         | 7,49         | ...          | ...          | ...          | ...          |
| (ii) Agreement, 1972 for DG 68 million            | 14,09          | ...          | ...            | ...          | ...          | ...          | 2,68         | 11,41        | 11,27        | ...          | ...          |
| (iii) Agreement, 1973 for DG 68 million           | 14,09          | ...          | ...            | ...          | ...          | ...          | ...          | 2,82         | 10,06        | ...          | ...          |
| (iv) XIX Credit                                   | 17,40          | ...          | ...            | ...          | ...          | ...          | ...          | ...          | ...          | 7,34         | 7,34         |
|                                                   |                |              |                |              |              |              |              |              | (b)9,97      |              | (b)3,48      |
| <b>Total</b>                                      | <b>1,13,02</b> | <b>9,53</b>  | <b>16,39</b>   | <b>6,86</b>  | <b>12,28</b> | <b>6,24</b>  | <b>10,17</b> | <b>14,23</b> | <b>31,30</b> | <b>7,34</b>  | <b>10,82</b> |
| <b>XIV.—Loans from Denmark :</b>                  |                |              |                |              |              |              |              |              |              |              |              |
| (i) First Credit                                  | 1,03           | 73           | 43             | ...          | ...          | ...          | ...          | ...          | ...          | ...          | ...          |
| (ii) Second Credit                                | 1,38           | 9            | 1,60           | 9            | 12           | ...          | ...          | ...          | ...          | ...          | ...          |
| (iii) Third Credit                                | 4,00*          | ...          | 4              | 27           | 1,12         | 1,34         | 78           | 2            | 1            | 42           | 5            |

(b) Exchange variations.

\* At post-devaluation rates of exchange

| 1                                                 | 2            | 3          | 4           | 5           | 6           | 7           | 8            | 9           | 10           | 11           | 12           |
|---------------------------------------------------|--------------|------------|-------------|-------------|-------------|-------------|--------------|-------------|--------------|--------------|--------------|
| (iv) First Food Loan                              | 2,07         | ...        | 1,36        | ...         | ...         | ...         | ...          | ...         | ...          | ...          | ...          |
| (v) Second Food Loan                              | 3,00*        | ...        | 1,34        | 89          | 19          | 7           | ...          | ...         | ...          | ...          | ...          |
| (vi) Fourth Credit                                | 4,00*        | ...        | ...         | ...         | ...         | ...         | 9            | 1,54        | 1,12         | 1,25         | 1,25         |
| (vii) Fifth Credit                                | 5,00         | ...        | ...         | ...         | ...         | ...         | ...          | 5,00        | ...          | 1,00         | 1,00         |
|                                                   |              |            |             |             |             |             |              | 38(b)       | ...          | 81(b)        | 81(b)        |
| <b>Total</b>                                      | <b>20,48</b> | <b>82</b>  | <b>4,77</b> | <b>1,25</b> | <b>1,43</b> | <b>1,41</b> | <b>87</b>    | <b>1,56</b> | <b>1,51</b>  | <b>6,67</b>  | <b>3,11</b>  |
| <b>IV.—Loan from New Zealand :</b>                |              |            |             |             |             |             |              |             |              |              |              |
| Credit for purchase of wool                       | 33           | 33         | ...         | ...         | ...         | ...         | ...          | ...         | ...          | ...          | ...          |
| <b>XVI.—Loans from Sweden :</b>                   |              |            |             |             |             |             |              |             |              |              |              |
| (i) First Credit, 1964-65                         | 3,48         | ...        | 3,43        | 6           | ...         | ...         | ...          | ...         | ...          | ...          | ...          |
| (ii) Second Credit, 1965-66                       | 3,48         | ...        | 1,46        | 48          | 62          | 39          | 42           | 2           | 9            | ...          | ...          |
| (iii) Third Credit                                | 5,07*        | ...        | ...         | 19          | 67          | 3,61        | 41           | 2           | 20           | ...          | ...          |
| (iv) Fourth Credit                                | 5,80*        | ...        | ...         | 19          | 2,59        | 2,44        | 29           | ...         | 27           | ...          | ...          |
| (v) Fifth Credit                                  | 18,13*       | ...        | ...         | ...         | ...         | 2,00        | 2,34         | 1,98        | 1,45         | 10,33        | 5,80         |
| (vi) Sixth Credit                                 | 25,37*       | ...        | ...         | ...         | ...         | ...         | ...          | 4,35        | 8,70         | ...          | ...          |
| (vii) New Project Loan, 1973 for SK 70 million    | 10,15*       | ...        | ...         | ...         | ...         | ...         | ...          | ...         | ...          | 10,15        | 8,70         |
| (viii) Credit 1974                                | 18,13*       | ...        | ...         | ...         | ...         | ...         | ...          | ...         | 15,22        | 2,90         | 2,90         |
| (ix) Wheat Storage                                | 377*         | ...        | ...         | ...         | ...         | ...         | ...          | ...         | 36           | 341          | 102          |
|                                                   |              |            |             |             |             |             |              |             | 707(b)       | ...          | 508(b)       |
| <b>Total</b>                                      | <b>93,38</b> | <b>...</b> | <b>4,89</b> | <b>92</b>   | <b>3,88</b> | <b>8,44</b> | <b>3,46</b>  | <b>6,37</b> | <b>33,36</b> | <b>26,79</b> | <b>23,50</b> |
| <b>XVII.—Loan from Bahrain :</b>                  |              |            |             |             |             |             |              |             |              |              |              |
|                                                   | 7,86         | 7,86       | ...         | ...         | ...         | ...         | ...          | ...         | ...          | ...          | ...          |
| <b>XVIII.—Loans from Italy :</b>                  |              |            |             |             |             |             |              |             |              |              |              |
| (i) Italian Fertilizer Credit                     | 1,50         | ...        | 1,46        | ...         | ...         | ...         | ...          | ...         | ...          | ...          | ...          |
| (ii) First Italian Debt Relief, 1969              | 4,13*        | ...        | ...         | ...         | 4,13        | ...         | ...          | ...         | ...          | ...          | ...          |
| (iii) Second Italian Debt Relief, 1969            | 5,51*        | ...        | ...         | ...         | ...         | ...         | 5,51         | ...         | ...          | ...          | ...          |
| (iv) Third Italian Debt Relief                    | 5,51*        | ...        | ...         | ...         | ...         | ...         | 5,51         | ...         | ...          | ...          | ...          |
| (v) Debt Relief, 1973                             | 4,20         | ...        | ...         | ...         | ...         | ...         | ...          | ...         | ...          | 4,38         | ...          |
| <b>Total</b>                                      | <b>20,85</b> | <b>...</b> | <b>1,46</b> | <b>...</b>  | <b>4,13</b> | <b>...</b>  | <b>11,02</b> | <b>...</b>  | <b>...</b>   | <b>4,38</b>  | <b>...</b>   |
| <b>XIX.—Loans from Belgium :</b>                  |              |            |             |             |             |             |              |             |              |              |              |
| (i) First Belgian Credit                          | 90           | ...        | 90          | ...         | ...         | ...         | ...          | ...         | ...          | ...          | ...          |
| (ii) Second Belgian Credit                        | 1,88*        | ...        | 1,79        | 9           | ...         | 61          | ...          | ...         | ...          | ...          | ...          |
| (iii) Third Belgian Credit                        | 1,88*        | ...        | 83          | 1,03        | 1           | 81          | ...          | ...         | ...          | ...          | ...          |
| (iv) Fourth Belgian Credit                        | 2,25*        | ...        | ...         | 1,12        | 79          | 34          | ...          | 1           | ...          | ...          | ...          |
| (v) Fifth Belgian Credit                          | 2,63*        | ...        | ...         | ...         | 1,77        | 1,12        | 4            | ...         | ...          | ...          | ...          |
| (vi) Sixth Belgian Credit                         | 3,00*        | ...        | ...         | ...         | ...         | ...         | 1,11         | 39          | ...          | ...          | ...          |
| (vii) Debt Relief                                 | 1,13*        | ...        | ...         | ...         | ...         | ...         | 1,13         | ...         | ...          | ...          | ...          |
| (viii) Seventh Belgian Credit                     | 2,25*        | ...        | ...         | ...         | ...         | ...         | 10           | 51          | 1,57         | 1,64         | ...          |
| (ix) Eight Credit (including Debt Relief)         | 3,75*        | ...        | ...         | ...         | ...         | ...         | ...          | 1,12        | 12           | 2,51         | 2,13         |
| (x) Ninth Credit (including Debt Relief)          | 4,13*        | ...        | ...         | ...         | ...         | ...         | ...          | ...         | 1,50         | 2,63         | ...          |
|                                                   |              |            |             |             |             |             |              |             | 135(a)       | ...          | 85(b)        |
| <b>Total</b>                                      | <b>23,80</b> | <b>...</b> | <b>3,52</b> | <b>2,24</b> | <b>2,57</b> | <b>2,88</b> | <b>2,38</b>  | <b>2,03</b> | <b>4,61</b>  | <b>5,14</b>  | <b>2,98</b>  |
| <b>XX.—Loans from France :</b>                    |              |            |             |             |             |             |              |             |              |              |              |
| (i) \$ 17 million Credit, 1966                    | 12,75*       | ...        | 9,94        | 1,16        | 50          | 56          | 2            | 3           | ...          | ...          | ...          |
| (ii) F.F. 150 million Credit, 1968                | 20,25*       | ...        | 4           | 4,95        | 6,86        | 5,55        | 1,87         | 55          | 68           | 104          | 69           |
| (iii) F.F. 25 million Credit, 1968 (Debt Relief)  | 13,75*       | ...        | 2,84        | 94          | ...         | ...         | ...          | ...         | ...          | ...          | ...          |
| (iv) F.F. 125 million Credit, 1969                | 6,88*        | ...        | ...         | 1,09        | 1,09        | 6,41        | 1,88         | 2,04        | 81           | 27           | 27           |
| (v) F.F. 27.7 million Credit, 1970 (Debt Relief)  | 3,74*        | ...        | ...         | ...         | 3,74        | ...         | ...          | ...         | ...          | ...          | ...          |
| (vi) F.F. 27.7 million Credit, 1970 (Debt Relief) | 3,74*        | ...        | ...         | ...         | 3,74        | ...         | ...          | ...         | ...          | ...          | ...          |
| (vii) F.F. 125 million Credit, 1970               | 16,88*       | ...        | ...         | ...         | ...         | 6,76        | 1,86         | 4,49        | 74           | 20           | 8            |
| (viii) F.F. 130 million Credit, 1971              | 17,55*       | ...        | ...         | ...         | ...         | 8,11        | 4,83         | 1,45        | 2,97         | 2,25         | 1,59         |
| (ix) F.F. 150 million Credit, 1971                | 20,25*       | ...        | ...         | ...         | ...         | 93          | 9,87         | 6,10        | 1,08         | 2,28         | 1,38         |
| (x) F.F. 27.7 million Credit, 1971 (Debt Relief)  | 3,74*        | ...        | ...         | ...         | ...         | 3,75        | ...          | ...         | ...          | ...          | ...          |
| (xi) F.F. 150 million Credit 1972                 | 20,25*       | ...        | ...         | ...         | ...         | ...         | 4,40         | 12,84       | 2,24         | 77           | 40           |
| (xii) F.F. 35 million Credit, 1972                | 4,73*        | ...        | ...         | ...         | ...         | ...         | 20           | 28          | 67           | 2,31         | 1,35         |
| (xiii) Debt Relief, 1972-73                       | 4,49*        | ...        | ...         | ...         | ...         | ...         | 4,49         | ...         | ...          | ...          | ...          |
| (xiv) Debt Relief, 1973-74 (F.F. 147.29 million)  | 6,36*        | ...        | ...         | ...         | ...         | ...         | ...          | 6,36        | ...          | ...          | ...          |
| (xv) Atomic Energy Credit, 1973 (FF 56 million)   | 7,56*        | ...        | ...         | ...         | ...         | ...         | ...          | 1,27        | 2,43         | 3,86         | 1,76         |
| (xvi) FF 180 million Credit, 1973                 | 24,30*       | ...        | ...         | ...         | ...         | ...         | ...          | 4,86        | 9,32         | 10,13        | 3,36         |
| (xvii) FF 214 million Credit 1974                 | 28,89*       | ...        | ...         | ...         | ...         | ...         | ...          | ...         | 41           | 28,48        | 5,40         |
| (xviii) FF 60 million credit 1974                 | 8,10*        | ...        | ...         | ...         | ...         | ...         | ...          | ...         | ...          | 8,10         | 1,08         |

\*At post-devaluation rates of exchange

(b) Exchange variation



|                                               | 1        | 2       | 3       | 4     | 5     | 6     | 7     | 8     | 9             | 10              | 11            | 1       |
|-----------------------------------------------|----------|---------|---------|-------|-------|-------|-------|-------|---------------|-----------------|---------------|---------|
| (xix) Debt Relief 1974-75 (FF 692.80 million) |          | 9,35*   | ...     | ...   | ...   | ...   | ...   | ...   | ...           | 9,35<br>7,65(b) | ...           | 4,68(b) |
| <b>Total</b>                                  |          | 2,33,56 | ...     | 12,82 | 8,14  | 15,93 | 32,07 | 29,42 | 40,27         | 38,35           | 59,69         | 22,     |
| XXI.—Loan from Hungary:                       | 12,50    | ...     | ...     | ...   | ...   | ...   | ...   | ...   | ...           | 2,14            | 10,36         | 3,0     |
| XXII.—Loan from Bulgaria:                     | 11,25    | ...     | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| XXIII.—Loan from the Government of Qatar:     | 12,88    | ...     | 12,88   | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| XXIV.—Loan from Romania:                      | ...      | ...     | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| XXV.—Loan from Norway:                        | 1,58*    | ...     | ...     | ...   | ...   | ...   | 10    | 7     | ...           | ...             | ...           | ...     |
| <b>INTERNATIONAL AGENCIES</b>                 |          |         |         |       |       |       |       |       |               |                 |               |         |
| XXVI.—I.B.R.D. Loans:                         |          |         |         |       |       |       |       |       |               |                 |               |         |
| (i) Agricultural Machinery Project Loan       | 3,43     | 3,43    | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (ii) Railway Project Loan I                   | 15,62    | 15,62   | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (iii) Railway Project Loan II                 | 42,86    | 42,86   | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (iv) Railway Project Loan III                 | 40,48    | 40,48   | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (v) Railway Project Loan IV                   | 23,81    | 23,81   | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (vi) Railway Project Loan V                   | 33,33    | 33,33   | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (vii) Railway Project Loan VI                 | 23,81    | 23,81   | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (viii) D.V.C. I                               | 7,96     | 7,96    | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (ix) D.V.C. II                                | 5,00     | 5,00    | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (x) D.V.C. III                                | 10,48    | 10,48   | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xi) Koyna Project Loan (First Stage)         | 8,90     | 8,90    | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xii) Coal Industry                           | 13,71    | 13,46   | 39      | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xiii) Power Transmission                     | 43,50*   | ...     | 21,09   | 7,80  | 8,44  | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xiv) Kothagudem Power Project II             | 6,67     | 2,79    | 4,83    | 1,04  | 64    | 2     | ...   | ...   | ...           | ...             | ...           | ...     |
| (xv) Third Telecommunication                  | 20,63*   | ...     | ...     | ...   | ...   | 9,81  | 9,32  | 1,51  | ...           | ...             | ...           | ...     |
| (xvi) Tarai Seed                              | 9,75*    | ...     | ...     | ...   | 1,55  | 35    | 39    | 7     | 2,25          | 5,14            | 2,25          | ...     |
| (xvii) Chambal Valley Development Project     | 39,00    | ...     | ...     | ...   | ...   | ...   | ...   | ...   | 4,50<br>49(b) | 34,50           | 4,50<br>55(b) | ...     |
| <b>Total</b>                                  |          | 3,48,94 | 2,31,93 | 26,31 | 8,84  | 10,63 | 10,18 | 9,71  | 1,58          | 7,24            | 39,64         | 7,30    |
| XXVII.—I.D.A. Credits:                        |          |         |         |       |       |       |       |       |               |                 |               |         |
| (i) Roads Project                             | 28,32    | 24,61   | 4,98    | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (ii) U.P. Tubewell Project                    | 2,86     | 2,86    | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (iii) Shetrunji Irrigation Project            | 1,61     | 1,61    | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (iv) Salandi Irrigation Project               | 3,57     | 75      | 4,28    | 16    | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (v) Punjab Drainage Project                   | 4,76     | 4,48    | 43      | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (vi) D.V.C. IV                                | 7,98     | 5,70    | 2,81    | 36    | ...   | 3     | ...   | ...   | ...           | ...             | ...           | ...     |
| (vii) Sone Irrigation Project                 | 7,14     | 5,54    | 2,53    | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (viii) Purna Irrigation Project               | 6,19     | 4,48    | 2,68    | ...   | 86    | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (ix) Koyna Project (Second Stage)             | 8,33     | 4,31    | 3,16    | 2,31  | 1,10  | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (x) Bombay Port Project                       | 7,76     | 1,63    | 8,54    | 35    | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xi) Telecommunications Project I             | 19,90    | 16,91   | 2,79    | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xii) Railway Project Loan VII                | 32,14    | 32,14   | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xiii) Kothagudem Power Project               | 9,52     | 6,41    | 4,90    | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xiv) Industrial Imports I                    | 42,86    | 42,60   | 26      | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xv) Telecommunications Project II            | 15,71    | 9,66    | 8,84    | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xvi) Railway Project Loan VIII               | 29,52    | 29,52   | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xvii) Industrial Imports II                  | 47,62*   | 7,41    | 59,96   | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xviii) Beas Project                          | 17,25    | ...     | 7,29    | 1,53  | 1,43  | 90    | 3,65  | 1,65  | 61            | 20              | ...           | ...     |
| (xix) Railway Project Loan IX                 | 51,00*   | ...     | 51,00   | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xx) Industrial Imports III                   | 1,12,50* | ...     | 1,12,50 | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xxi) Industrial Imports IV                   | 48,75*   | ...     | 48,75   | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xxii) Industrial Imports V                   | 93,75*   | ...     | 21,60   | 72,15 | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xxiii) Third Telecommunications              | 20,62*   | ...     | ...     | 4,53  | 7,52  | 7,32  | 1,26  | ...   | ...           | ...             | ...           | ...     |
| (xxiv) Railway X                              | 41,25*   | ...     | ...     | 3,53  | 17,71 | 20,23 | ...   | ...   | ...           | ...             | ...           | ...     |
| (xxv) Kadana                                  | 26,25*   | ...     | ...     | ...   | 83    | 2,84  | 51,0  | 8,53  | 6,00          | 2,95            | 3,00          | ...     |
| (xxvi) Industrial Imports VI                  | 56,25*   | ...     | ...     | ...   | 15,29 | 41,04 | ...   | ...   | ...           | ...             | ...           | ...     |
| (xxvii) Gujarat Agricultural Project          | 26,25*   | ...     | ...     | ...   | ...   | 1,50  | 18,58 | 4,04  | 2,42          | 17,88           | 3,37          | ...     |
| (xxviii) Punjab Agricultural Project          | 20,62*   | ...     | ...     | ...   | ...   | ...   | ...   | 12    | 2,62          | 3,21            | 3,21          | ...     |
| (xxix) Andhra Pradesh Agricultural Project    | 18,38*   | ...     | ...     | ...   | ...   | 83    | 7,24  | 2,84  | 4,50          | 4,50            | 4,18          | ...     |
| (xxx) Agricultural Aviation                   | 4,50*    | ...     | ...     | ...   | ...   | ...   | ...   | ...   | ...           | ...             | ...           | ...     |
| (xxxi) Telecommunications Project IV          | 58,50*   | ...     | ...     | ...   | ...   | ...   | 5,33  | 22,73 | 26,25         | 4,18            | 4,18          | ...     |
| (xxxii) Power Transmission II                 | 56,25*   | ...     | ...     | ...   | ...   | ...   | 2     | 84    | 18,75         | 36,64           | 30,00         | ...     |
| (xxxiii) Haryana Agricultural Project         | 18,75*   | ...     | ...     | ...   | ...   | ...   | 3,38  | 2,72  | 3,75          | 8,90            | 7,50          | ...     |
| (xxxiv) Tamil Nadu Agricultural Project       | 26,25*   | ...     | ...     | ...   | ...   | ...   | 3,51  | 13,07 | 1,87          | 7,80            | 4,50          | ...     |
| (xxxv) Cochin II Fertiliser Project           | 15,00*   | ...     | ...     | ...   | ...   | ...   | 25    | 47    | 5,04          | 5,25            | 4,00          | ...     |
| (xxxvi) Wheat Storage                         | 3,75*    | ...     | ...     | ...   | ...   | ...   | ...   | 10    | 75            | 2,90            | 2,88          | ...     |
| (xxxvii) Pochampad Irrigation                 | 29,25*   | ...     | ...     | ...   | ...   | ...   | ...   | 10,66 | 5,60          | 6,99            | 6,99          | ...     |
| (xxxviii) Railways XI                         | 56,25*   | ...     | ...     | ...   | ...   | 4,58  | 24,60 | 26,51 | 38            | 22              | 9,00          | ...     |
| (xxxix) Mysore Agricultural Project           | 30,00*   | ...     | ...     | ...   | ...   | ...   | 2,54  | 5,96  | 4,50          | 17,00           | 1,16          | ...     |
| (xl) Gorakhpur Fertilizer Expansion           | 7,50*    | ...     | ...     | ...   | ...   | ...   | 47    | 2,11  | 3,75          | 1,16            | 1,16          | ...     |
| (xli) Maharashtra Agricultural Credit Project | 22,50*   | ...     | ...     | ...   | ...   | ...   | 3,46  | 5,00  | 6,00          | 8,04            | 6,00          | ...     |

\*At post devaluation rate of exchange.

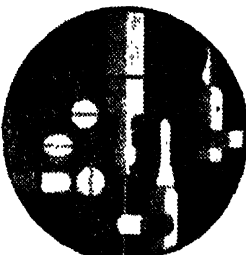
Balance of 8 M cancelled.

(b) Exchange variations.

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|                                                                  | 1 | 2                | 3               | 4               | 5              | 6              | 7              | 8              | 9              | 10             | 11              | 12              |
|------------------------------------------------------------------|---|------------------|-----------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| (xlii) Bihar Agricultural Project                                |   | 10,50*           | ...             | ...             | ...            | ...            | ...            | ...            | ...            | 37             | 10,13           | 2,63            |
| (xliii) Population Project                                       |   | 15,90*           | ...             | ...             | ...            | ...            | ...            | ...            | 19             | 2,25           | 13,46           | 4,13            |
| (xliv) Shipping Project                                          |   | 62,25*           | ...             | ...             | ...            | ...            | ...            | 11,42          | 42,63          | 8,19           | ...             | ...             |
| (xlv) Industrial Imports VII                                     |   | 56,25*           | ...             | ...             | ...            | ...            | ...            | 34,60          | 21,65          | ...            | ...             | ...             |
| (xlv) Education Project                                          |   | 9,00*            | ...             | ...             | ...            | ...            | ...            | ...            | ...            | 38             | 8,62            | 1,59            |
| (xlvii) I.D.B.I.                                                 |   | 18,75*           | ...             | ...             | ...            | ...            | ...            | ...            | ...            | ...            | 18,75           | 3,75            |
| (xlviii) Nangal Fertilizer                                       |   | 43,50*           | ...             | ...             | ...            | ...            | ...            | ...            | 3,05           | 11,25          | 29,20           | 15,00           |
| (xlix) Third Power Transmission Project                          |   | 63,75*           | ...             | ...             | ...            | ...            | ...            | ...            | ...            | ...            | 63,75           | ...             |
| (xli) Mysore Agr. Wholesale Market                               |   | 6,00*            | ...             | ...             | ...            | ...            | ...            | ...            | ...            | ...            | 6,00            | 75              |
| (xli) Bombay Water Supply and Sewage                             |   | 41,25*           | ...             | ...             | ...            | ...            | ...            | ...            | 48             | 1,50           | 24,27           | 7,50            |
| (xlii) Madhya Pradesh Agricultural Project                       |   | 24,75*           | ...             | ...             | ...            | ...            | ...            | ...            | 9              | 6,00           | 18,66           | 7,88            |
| (xliii) U.P. Agricultural Project                                |   | 28,50*           | ...             | ...             | ...            | ...            | ...            | ...            | 1,23           | 5,25           | 22,02           | 7,87            |
| (xliv) Fifth Telecommunication Project                           |   | 60,00*           | ...             | ...             | ...            | ...            | ...            | ...            | ...            | ...            | 60,00           | 22,50           |
| (xlvi) Eight Industrial Credit                                   |   | 75,00*           | ...             | ...             | ...            | ...            | ...            | ...            | 63,47          | 11,53          | ...             | ...             |
| (xlvi) Calcutta Urban Development Project                        |   | 26,25*           | ...             | ...             | ...            | ...            | ...            | ...            | ...            | 2,25           | 39,00           | 7,50            |
| (xlvi) Railway Project                                           |   | 60,00*           | ...             | ...             | ...            | ...            | ...            | ...            | 2,94           | 30,00          | 27,06           | 27,75           |
| (xlviii) H.P. Apple Project (US \$ 13 million)                   |   | 9,75             | ...             | ...             | ...            | ...            | ...            | ...            | ...            | ...            | 9,75            | 1,50            |
| (xlix) Bihar Agricultural Project (US \$ 32 million)             |   | 24,00            | ...             | ...             | ...            | ...            | ...            | ...            | ...            | 3,75           | 20,25           | 6,00            |
| (xlix) Sindri Fertilizer Project                                 |   | NA               | ...             | ...             | ...            | ...            | ...            | ...            | ...            | 3,00           | NA              | 6,00            |
| (xli) Trombay IV Fertiliser Project for U.S. 50 million (481 in) |   | 37,50            | ...             | ...             | ...            | ...            | ...            | ...            | ...            | 75             | 36,75           | 3,75            |
| (xlii) Karnataka Dairy for U.S. \$ 30 million 482 IN             |   | 22,50            | ...             | ...             | ...            | ...            | ...            | ...            | ...            | ...            | 22,50           | 1,50            |
| (xliii) Rajasthan Canal (CAD) Project US \$ 83 million (502 in)  |   | 62,25            | ...             | ...             | ...            | ...            | ...            | ...            | ...            | 7,50           | 54,75           | 7,50            |
| (xliv) IX Industrial credit for US \$ 150 million (477-IN)       |   | 1,12,50*         | ...             | ...             | ...            | ...            | ...            | ...            | ...            | 1,12,50        | ...             | ...             |
| (xlixv) Rajasthan Dairy                                          |   | NA               | ...             | ...             | ...            | ...            | ...            | ...            | ...            | ...            | NA              | 1,50            |
| (xlixvi) Madhya Pradesh Dairy                                    |   | NA               | ...             | ...             | ...            | ...            | ...            | ...            | ...            | ...            | NA              | 1,50            |
| (xlixvii) DPAA                                                   |   | NA               | ...             | ...             | ...            | ...            | ...            | ...            | ...            | ...            | NA              | 1,12,50         |
| (xlixviii) X Industrial Imports                                  |   | NA               | ...             | ...             | ...            | ...            | ...            | ...            | ...            | ...            | NA              | 6,00            |
| (xlixix) Godawari Barrage                                        |   | NA               | ...             | ...             | ...            | ...            | ...            | ...            | ...            | 2258(b)        | 27,94(b)        | ...             |
| <b>Total</b>                                                     |   | <b>20,07,23</b>  | <b>2,00,62</b>  | <b>3,47,30</b>  | <b>84,92</b>   | <b>44,74</b>   | <b>79,52</b>   | <b>1,36,29</b> | <b>2,42,59</b> | <b>2,80,52</b> | <b>6,11,49</b>  | <b>3,71,50</b>  |
| <b>XXVIII.—New Credits</b>                                       |   | ...              | ...             | ...             | ...            | ...            | ...            | ...            | 2,20,00        | ...            | ...             | 1,93,84         |
|                                                                  |   |                  |                 |                 |                |                |                |                |                |                |                 | 54,22(b)        |
| <b>Grand Total</b>                                               |   | <b>110,64,80</b> | <b>30,31,14</b> | <b>26,91,39</b> | <b>6,16,83</b> | <b>6,10,90</b> | <b>6,34,50</b> | <b>5,41,31</b> | <b>6,82,66</b> | <b>8,49,79</b> | <b>14,93,73</b> | <b>9,28,47*</b> |

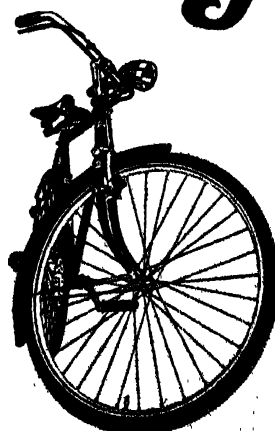
\*At post devaluation rates of exchange. (b) Exchange variations.

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# External Loans

## (Statement of Repayments)

(In lakhs of Rupees)

| Details of Loans                                                | Actuals,<br>from<br>1956-57<br>to<br>1960-61 | Actuals,<br>from<br>1961-62<br>to<br>1965-66 | Actuals,<br>from<br>1966-67<br>to<br>1968-69 | Actuals,<br>1969-70 | Actuals,<br>1970-71 | Actuals,<br>1971-72 | Actuals,<br>1972-73 | Actuals,<br>1973-74 | Budget<br>1974-75 | Revised,<br>1974-75 | Budget,<br>1975-76 |
|-----------------------------------------------------------------|----------------------------------------------|----------------------------------------------|----------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|---------------------|--------------------|
| 1                                                               | 2                                            | 3                                            | 4                                            | 5                   | 6                   | 7                   | 8                   | 9                   | 10                | 11                  | 12                 |
| <b>COUNTRIES</b>                                                |                                              |                                              |                                              |                     |                     |                     |                     |                     |                   |                     |                    |
| <b>I.—Loans from U.S.A.:</b>                                    |                                              |                                              |                                              |                     |                     |                     |                     |                     |                   |                     |                    |
| (i) American Wheat Loan                                         | 1,63                                         | ...                                          | 2,22                                         | ...                 | ...                 | ...                 | 5,00                | 5,12                | 5,25              | 5,25                | 5,38               |
| (ii) Development Assistance Loans                               | 7                                            | 90                                           | 2,20                                         | 98                  | 1,10                | 1,23                | 1,36                | 88,79               | ...               | ...                 | ...                |
| (iii) D.L.F./A.I.D. Loans                                       | 5,14                                         | 42,15                                        | 56,17                                        | 19,30               | 19,19               | 18,39               | 24,79               | 1,38,47             | 22,95             | 22,94               | 28,81              |
| (iv) Asian Economic Development Fund Loan                       | ...                                          | 48                                           | 2,06                                         | 90                  | 90                  | 1,20                | 1,20                | 6,53                | ...               | ...                 | ...                |
| (v) P.L. 480 Rupee Loans                                        | ...                                          | 48                                           | 4,13                                         | 3,11                | 4,22                | 5,33                | 6,76                | 14,98,890           | ...               | ...                 | ...                |
| (vi) Commodity Credit Corporation                               | ...                                          | ...                                          | ...                                          | ...                 | ...                 | ...                 | ...                 | 3,91                | ...               | ...                 | ...                |
| (vii) U.S. Export-Import Bank Loans :                           |                                              |                                              |                                              |                     |                     |                     |                     |                     |                   |                     |                    |
| (a) First Loan                                                  | ...                                          | 17,85                                        | 33,75                                        | 11,25               | 11,25               | 11,25               | 11,25               | 5,63                | ...               | ...                 | ...                |
| (b) Second Loan                                                 | ...                                          | ...                                          | 11,25                                        | 3,75                | 3,75                | 3,75                | 3,75                | 3,75                | 3,75              | 3,75                | 3,75               |
| (c) Third Loan                                                  | ...                                          | 99                                           | 4,40                                         | 1,56                | 1,56                | 1,57                | 1,56                | 1,56                | 1,56              | 1,56                | 1,56               |
| (d) Fourth Loan                                                 | ...                                          | ...                                          | 3,12                                         | 1,56                | 1,56                | 1,57                | 1,56                | 1,56                | 1,56              | 1,56                | 1,56               |
| (e) Fifth Loan                                                  | ...                                          | ...                                          | ...                                          | ...                 | ...                 | 1,25                | 1,25                | 1,25                | 1,25              | 1,25                | 1,25               |
| (f) Sixth Loan                                                  | ...                                          | ...                                          | ...                                          | ...                 | ...                 | 56                  | 1,01                | 1,01                | 1,01              | 1,02                | 1,02               |
| (g) Credit for Diesel Loco Works, Varanasi<br>(I Tranche)       | ...                                          | ...                                          | 3,35                                         | 1,19                | 1,19                | 1,19                | 1,19                | 1,19                | 1,19              | 1,19                | 1,19               |
| (h) Credit for Diesel Loco Works, Varanasi<br>(II Tranche)      | ...                                          | ...                                          | 1,59                                         | 1,06                | 1,06                | 1,06                | 1,06                | 1,06                | 1,06              | 1,06                | 1,06               |
| (i) Credit for Diesel Loco Works, Varanasi<br>(III Tranche)     | ...                                          | ...                                          | 96                                           | 96                  | 96                  | 96                  | 96                  | 96                  | 96                | 96                  | 96                 |
| (j) Loans to Air India :                                        |                                              |                                              |                                              |                     |                     |                     |                     |                     |                   |                     |                    |
| First Loan                                                      | ...                                          | 1,48                                         | 82                                           | ...                 | ...                 | ...                 | ...                 | ...                 | ...               | ...                 | ...                |
| Second Loan                                                     | ...                                          | 2,27                                         | 2,87                                         | 51                  | ...                 | ...                 | ...                 | ...                 | ...               | ...                 | ...                |
|                                                                 |                                              |                                              |                                              |                     |                     |                     |                     | (b)3,51             | (b)2,87           | (b)3,78             | ...                |
| <b>Total</b>                                                    | <b>6,84</b>                                  | <b>6,660</b>                                 | <b>1,28,89</b>                               | <b>46,13</b>        | <b>46,74</b>        | <b>49,31</b>        | <b>62,69</b>        | <b>17,59,69</b>     | <b>44,05</b>      | <b>43,41</b>        | <b>50,32</b>       |
| <b>II.—Loans from U.S.S.R. :</b>                                |                                              |                                              |                                              |                     |                     |                     |                     |                     |                   |                     |                    |
| (i) Bhilai Loan                                                 | 16,73                                        | 26,98                                        | 27,05                                        | 4,70                | 1,32                | 0,05                | ...                 | ...                 | ...               | ...                 | ...                |
| (ii) Industrial Enterprises                                     | ...                                          | 3,44                                         | 22,52                                        | 5,82                | 7,15                | 5,40                | 6,08                | 6,08                | 6,08              | 6,08                | 4,28               |
| (iii) Drugs Credit                                              | ...                                          | 5                                            | 5,64                                         | 4,10                | 2,26                | ...                 | 2,12                | @                   | @                 | @                   | @                  |
| (iv) Barauni Credit                                             | ...                                          | 90                                           | 4,60                                         | 1,56                | 1,54                | 1,55                | 1,55                | 1,56                | 1,56              | 1,55                | 1,55               |
| (v) 337.5 million Roubles Credit                                | ...                                          | 5,36                                         | 39,13                                        | 18,02               | 21,88               | 16,78               | 20,01               | 20,08               | 19,72             | 19,68               | 19,77              |
| (vi) 112.5 million Roubles Credit                               | ...                                          | 1                                            | 6,82                                         | 4,45                | 5,85                | 3,92                | 5,07                | 5,28                | 5,17              | 5,88                | 6,30               |
| (vii) Bokaro Credit                                             | ...                                          | ...                                          | 1,56                                         | 4,98                | 18,02               | 2,85                | 12,79               | 13,24               | 13,54             | 13,34               | 13,42              |
| (viii) 300 million Roubles Credit                               | ...                                          | ...                                          | ...                                          | 1,12                | 2,26                | 8                   | 1,24                | 1,27                | 1,27              | 1,32                | 1,82               |
| <b>Total</b>                                                    | <b>16,73</b>                                 | <b>36,74</b>                                 | <b>1,07,32</b>                               | <b>44,75</b>        | <b>60,28</b>        | <b>30,63</b>        | <b>48,86</b>        | <b>47,47</b>        | <b>47,34</b>      | <b>47,85</b>        | <b>47,14</b>       |
| <b>III.—U.K. Credits :</b>                                      |                                              |                                              |                                              |                     |                     |                     |                     |                     |                   |                     |                    |
| (a) U.K. Government Loans :                                     |                                              |                                              |                                              |                     |                     |                     |                     |                     |                   |                     |                    |
| (i) Durgapur Credit                                             | ...                                          | ...                                          | 22,49                                        | 6,75                | ...                 | ...                 | ...                 | ...                 | ...               | ...                 | ...                |
| (ii) Second E.C.G.D. Credit                                     | ...                                          | 8,45                                         | 18,53                                        | 2,28                | 2,28                | 2,28                | 2,27                | 2,28                | 2,28              | 2,28                | 2,28               |
| (iii) U.K. India (Oil Pipe Line) Credit                         | ...                                          | 2,66                                         | 2,10                                         | ...                 | ...                 | ...                 | ...                 | ...                 | ...               | ...                 | ...                |
| (iv) U.K. India (General) Credit, 1959                          | ...                                          | 2,81                                         | 11,52                                        | 3,79                | 1,52                | 1,52                | 1,53                | 1,52                | 1,52              | 1,52                | 1,52               |
| (v) First U.K. India (General) Credit, 1960                     | ...                                          | ...                                          | 6,04                                         | 1,99                | 1,99                | 80                  | 79                  | 80                  | 80                | 80                  | 80                 |
| (vi) Second U.K. India (General) Credit, 1960                   | ...                                          | ...                                          | 1,60                                         | 60                  | 60                  | 60                  | 61                  | 60                  | 60                | 60                  | 60                 |
| (vii) First U.K. India (General) Credit, 1961                   | ...                                          | ...                                          | 2,74                                         | 90                  | 90                  | 90                  | 90                  | 90                  | 90                | 90                  | 90                 |
| (viii) First U.K. India (Five Year Plan) Credit, 1961           | ...                                          | ...                                          | 2,92                                         | 2,92                | 2,92                | 2,92                | 2,92                | 2,92                | 2,92              | 2,92                | 2,92               |
| (ix) Second U.K. India (General) Credit, 1961                   | ...                                          | ...                                          | 49                                           | 49                  | 49                  | 49                  | 49                  | 49                  | 49                | 49                  | 49                 |
| (x) First U.K. India (General) Credit, 1962                     | ...                                          | ...                                          | ...                                          | 97                  | 97                  | 97                  | 97                  | 97                  | 97                | 97                  | 97                 |
| (xi) U.K. India (Durgapur Extension) Credit, 1962               | ...                                          | ...                                          | ...                                          | 2,14                | 2,14                | 2,14                | 2,14                | 2,14                | 2,14              | 2,14                | 2,14               |
| (xii) Second U.K. India (General) Credit, 1962                  | ...                                          | ...                                          | ...                                          | 24                  | 49                  | 49                  | 49                  | 49                  | 49                | 49                  | 49                 |
| (xiii) U.K. India (Five Year Plan) Credit, 1962                 | ...                                          | ...                                          | ...                                          | 63                  | 1,27                | 1,27                | 1,26                | 1,27                | 1,27              | 1,27                | 1,27               |
| (xiv) U.K. India (Steel) Credit, 1963                           | ...                                          | ...                                          | ...                                          | ...                 | ...                 | 34                  | 34                  | 34                  | 34                | 34                  | 34                 |
| (xv) First U.K. India (General) Credit, 1963                    | ...                                          | ...                                          | ...                                          | ...                 | 49                  | 97                  | 97                  | 97                  | 97                | 97                  | 97                 |
| (xvi) Second U.K. India (General) Credit, 1963 (Kipping Loan I) | ...                                          | ...                                          | ...                                          | ...                 | 19                  | 39                  | 39                  | 39                  | 39                | 39                  | 39                 |
| (xvii) U.K. General Credit, 1964                                | ...                                          | ...                                          | ...                                          | ...                 | ...                 | 49                  | 49                  | 49                  | 49                | 49                  | 49                 |

(b) Exchange variations. @ In thousands only



# BHEL uncovers a national resource for future generations

It all began a year ago with tomorrow in mind. Today, the present is past. The future is happening. BHEL's Corporate Research and Development Unit with headquarters in Hyderabad, has become a national resource for future power generation in India and abroad. Already, it has completed the design-development of an experimental turbine which incorporates many futuristic designs for the Reactor Research Centre of the Madras Atomic Power Project. It has also rationalised a design for 140 MW thermal generating sets and studied designs for 500 MW thermal generating sets and electro-hydraulic governing systems.

An emerging member of the International "Power Club", India is one of just ten countries in the world that manufacture steam generating equipment for power stations. In fact, India today is in a position to undertake turnkey power projects for countries all over the world.

It is therefore, more than ever necessary to keep BHEL's technology updated and look ahead to the future.

BHEL's Corporate Research and Development Unit helps meet these objectives.

**The future is here... tomorrow is brighter**

One cannot fathom the human mind. Man's ability to think and perceive is infinite. Already, over a hundred experienced Indian scientists and

engineers at BHEL's Corporate Research and Development Unit have moved into the future. Totally indigenous designs have been developed. And, more experimental work is on hand to evolve and confirm basic design data. By 1976, the unit will have 600 people with specialised knowledge of modern technological and research concepts. With a resource like this to draw on, tomorrow can only be brighter.

**The search for enlightenment**  
The quest for more knowledge at the Research and Development Unit at Hyderabad and its Cells at the Plants include several broad functions:

- rationalisation of designs and manufacturing techniques
- evolution of futuristic designs and concepts
- maximum utilisation of existing facilities available from National Laboratories and Technical Institutions
- creation of basic R&D facilities for the Electrical Industry
- and above all, responsibility on behalf of BHEL, for National Development and Research Projects

BHEL's Corporate Research and Development Unit has completed a year. A number of projects have been initiated. A number of projects are in hand. To be handed down from generation to generation...a legacy from a national resource that never ends.



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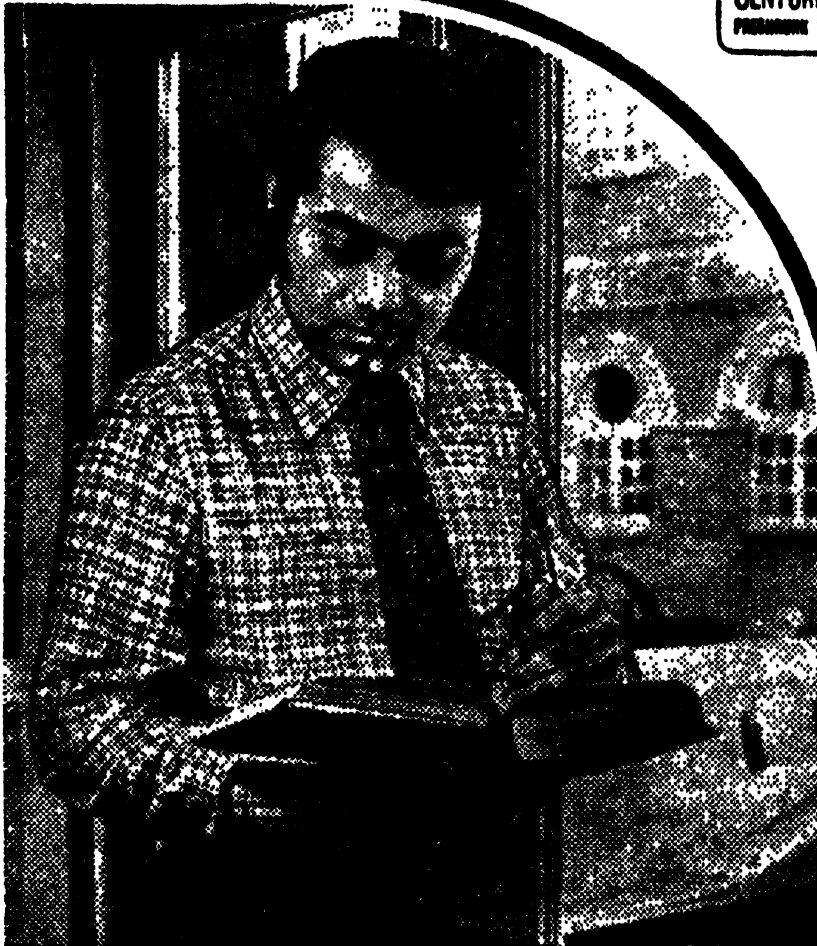
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|                                                      | 1   | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     | 10      | 11      | 12      |
|------------------------------------------------------|-----|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|---------|
| (xviii) U.K. India (Bhopal) Credit, 1964             | ... | ...   | ...   | ...   | ...   | ...   | 25    | 25    | 25    | 25      | 25      | 25      |
| (xix) First Five Year Plan Credit, 1964              | ... | ...   | ...   | ...   | ...   | ...   | 49    | 49    | 49    | 49      | 49      | 49      |
| (xx) 2nd General Credit, 1964                        | ... | ...   | ...   | ...   | ...   | ...   | 97    | 97    | 97    | 97      | 97      | 97      |
| (xxi) 2nd Bhopal Credit, 1964                        | ... | ...   | ...   | ...   | ...   | ...   | 10    | 20    | 19    | 19      | 19      | 19      |
| (xxii) 2nd Five Year Plan Credit, 1964               | ... | ...   | ...   | ...   | ...   | ...   | 7     | 14    | 14    | 14      | 14      | 14      |
| (xxiii) 3rd Five Year Plan Credit, 1964              | ... | ...   | ...   | ...   | ...   | ...   | 8     | 14    | 15    | 15      | 15      | 15      |
| (xxiv) 4th Five Year Plan Credit, 1964               | ... | ...   | ...   | ...   | ...   | ...   | 5     | 11    | 10    | 10      | 10      | 10      |
| (xxv) 5th Five Year Plan Credit, 1964                | ... | ...   | ...   | ...   | ...   | ...   | 6     | 11    | 12    | 12      | 12      | 12      |
| (xxvi) 6th Five Year Plan Credit, 1964               | ... | ...   | ...   | ...   | ...   | ...   | 16    | 32    | 32    | 32      | 32      | 32      |
| (xxvii) Third U.K. General Credit, 1964 (Kipping II) | ... | ...   | ...   | ...   | ...   | ...   | 19    | 39    | 39    | 39      | 39      | 39      |
| (xxviii) U.K. General Credit, 1965                   | ... | ...   | ...   | ...   | ...   | ...   | 24    | 49    | 49    | 48      | 48      | 49      |
| (xxix) U.K. Five Year Plan Credit, 1965              | ... | ...   | ...   | ...   | ...   | ...   | 2     | 4     | 5     | 5       | 5       | 5       |
| (xxx) 2nd U.K. General Credit, 1965                  | ... | ...   | ...   | ...   | ...   | ...   | ...   | 49    | 48    | 49      | 49      | 50      |
| (xxxi) UK General Purpose Credit, 1965               | ... | ...   | ...   | ...   | ...   | ...   | ...   | 50    | 1,00  | 1,00    | 1,00    | 1,00    |
| (xxxii) Non-Project Loan (IIrd Kipping) 1965         | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 40    | 40      | 40      | 40      |
| (xxxiii) First Bhopal Credit, 1966                   | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 24    | 48      | 48      | 48      |
| (xxxiv) Sindri Loan, 1966                            | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 1     | 2       | 2       | 2       |
| (xxxv) Non-Project Loan, 1966 (IVth Kipping)         | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 20    | 40      | 40      | 40      |
| (xxxvi) Second Bhopal Credit, 1966                   | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 15    | 30      | 30      | 30      |
| (xxxvii) General Purpose Loan, 1966                  | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 50    | 100     | 1,00    | 1,00    |
| (xxxviii) Food Emergency Loan, 1966                  | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 37    | 75      | 75      | 75      |
| (xxxix) 2nd Non-Project-Credit, 1966                 | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 1,35    | 1,35    | 1,35    |
| (xl) Non-Project-Credit, 1967                        | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 35      | 35      | 70      |
| (xli) Debt Refinancing Credit, General Purpose, 1967 | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | 60      | 60      | 1,20    |
| (xlii) General Purposes (1967)                       | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...     | ...     | 1,20    |
| (xliii) General Purposes (1968)                      | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...     | ...     | 42      |
| (xliv) Debt Refinancing                              | ... | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...     | ...     | 37      |
| (b) Lazard Brothers                                  | ... | 15,33 | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...     | ...     | ...     |
| (c) Barclays Bank                                    | ... | ...   | ...   | ...   | 57    | 57    | 57    | 58    | 57    | 57      | 57      | 57      |
|                                                      |     |       |       |       |       |       |       |       |       | 1,24(b) | 1,43(b) | 1,58(b) |
| <b>Total</b>                                         | ... | 29,25 | 68,43 | 24,27 | 16,82 | 19,82 | 21,80 | 24,15 | 29,16 | 29,35   | 32,45   |         |

—Loans from Canada :

|                                                                  |      |      |      |      |     |      |      |      |       |       |          |      |
|------------------------------------------------------------------|------|------|------|------|-----|------|------|------|-------|-------|----------|------|
| (i) Wheat Loan I                                                 | 1,64 | 6,58 | ...  | ...  | ... | ...  | ...  | ...  | ...   | ...   | ...      | ...  |
| (ii) Wheat Loan II                                               | ...  | 2,95 | ...  | ...  | ... | ...  | ...  | ...  | ...   | ...   | ...      | ...  |
| (iii) Diesel Locos for Indian Railways                           | ...  | ...  | 86   | ...  | ... | ...  | 21   | 21   | 43    | 43    | 43       | 43   |
| (iv) Indalco Expansion                                           | ...  | ...  | 29   | 11   | 11  | 11   | 11   | 11   | 11    | 11    | 11       | 11   |
| (v) Rana Pratap Sagar Hydro Electric Project                     | ...  | ...  | 36   | 36   | 36  | 36   | 36   | 36   | 36    | 36    | 36       | 36   |
| (vi) Rajasthan Atomic Power Project (Candu Atomic Power Project) | ...  | ...  | ...  | 1,04 | ... | 1,07 | 1,28 | 1,28 | 2,44  | 2,44  | 2,44     | 2,44 |
| (vii) Wind Tunnel Project                                        | ...  | ...  | ...  | ...  | 12  | 25   | 25   | 25   | 25    | 25    | 25       | 25   |
| (viii) Durgapur Alloy Steel Project (Amco Furnace)               | ...  | ...  | 4    | 8    | 8   | 8    | 8    | 8    | 8     | 8     | 8        | 8    |
| (ix) Kota Dam Hydro Electric Project                             | ...  | ...  | ...  | 12   | 25  | 25   | 25   | 25   | 25    | 25    | 25       | 25   |
| (x) Rajasthan Atomic Power Station (Phase II)                    | ...  | ...  | ...  | ...  | ... | ...  | ...  | ...  | 1,11  | 1,11  | 2,22     | 2,22 |
| (xi) Diesel Locos for Calcutta Port 1966                         | ...  | ...  | ...  | ...  | ... | ...  | ...  | ...  | 1     | ...   | ...      | 2    |
|                                                                  |      |      |      |      |     |      |      |      | (b)88 | (b)92 | 1,116(b) |      |
| <b>Total</b>                                                     | 1,64 | 9,53 | 1,55 | 1,71 | 92  | 2,12 | 2,54 | 2,54 | 5,91  | 5,95  | 7,32     |      |

—Loans from Federal Republic of Germany :

|                                                                              |      |       |       |      |      |      |      |      |      |      |      |      |
|------------------------------------------------------------------------------|------|-------|-------|------|------|------|------|------|------|------|------|------|
| (i) D.M. 660 million Rourkela Credit                                         | 5,58 | 72,06 | ...   | ...  | ...  | ...  | 1,64 | ...  | ...  | ...  | ...  | ...  |
| (ii) D.M. 168 million Credit                                                 | ...  | 2,86  | 13,64 | 1,50 | 1,64 | 1,64 | 1,64 | 1,64 | 1,64 | 1,64 | 1,64 | 1,64 |
| (iii) First D.M. 125 million Credit                                          | ...  | 1,14  | 5,00  | 1,65 | 1,72 | 1,72 | 1,72 | 1,72 | 1,72 | 1,72 | 1,72 | 1,72 |
| (iv) Second D.M. 125 million Credit                                          | ...  | ...   | 7,05  | 2,35 | 2,56 | 2,56 | 2,56 | 2,56 | 2,56 | 2,56 | 2,56 | 2,56 |
| (v) D.M. 98 36 million Credit, 1961—Rourkela Prolongation Credit (First)     | ...  | 11,71 | ...   | ...  | ...  | ...  | ...  | ...  | ...  | ...  | ...  | ...  |
| (vi) D.M. 230 million Credit, 1961—Rourkela Prolongation Credit (Second)     | ...  | 13,69 | 13,21 | 1,86 | 3,48 | 4,10 | 4,10 | 4,10 | ...  | ...  | ...  | ...  |
| (vii) D.M. 100 million Credit, 1961                                          | ...  | 90    | 6,53  | 94   | 94   | 96   | 96   | 96   | 96   | 96   | 96   | 96   |
| (viii) D.M. 85 million Credit, 1962—Rourkela Prolongation Credit (Third)     | ...  | ...   | 6,75  | 1,57 | 1,64 | 1,64 | 1,64 | 1,64 | 1,84 | 1,84 | ...  | ...  |
| (ix) D.M. 100 million Credit, 1962                                           | ...  | ...   | ...   | 1,45 | 1,52 | 1,52 | 1,52 | 1,52 | 1,52 | 1,52 | 1,52 | 1,52 |
| (x) D.M. 61 4 million Credit (for Rourkela Refinancing)                      | ...  | ...   | 2,56  | 1,34 | 1,40 | 1,40 | 1,40 | 1,40 | 1,40 | 1,40 | 1,39 | 1,39 |
| (xi) D.M. 90 million Credit, 1965                                            | ...  | 67    | 3,17  | 1,10 | 1,15 | 1,15 | 1,15 | 1,15 | 1,15 | 1,15 | 1,15 | 1,15 |
| (xii) D.M. 93 6 million Credit, 1965 (Consolidation of Rourkela Liabilities) | ...  | 35    | 3,50  | 1,15 | 1,20 | 1,20 | 1,20 | 1,20 | 1,20 | 1,20 | 1,20 | 1,20 |
| (xiii) D.M. 170 million Credit, 1963                                         | ...  | ...   | 2,25  | 2,46 | 2,46 | 2,46 | 2,46 | 2,46 | 2,46 | 2,46 | 2,46 | 2,46 |
| (xiv) D.M. 107 million Credit, 1963                                          | ...  | ...   | 2,00  | 2,10 | 2,19 | 2,19 | 2,19 | 2,19 | 2,19 | 2,19 | 2,19 | 2,19 |
| (xv) D.M. 396 million Credit, 1963                                           | ...  | ...   | 4,95  | 5,18 | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 |
| (xvi) D.M. 4 million Credit, 1963                                            | ...  | ...   | ...   | 5    | 5    | 5    | 5    | 5    | 5    | 5    | 5    | 5    |
| (xvii) D.M. 82 million Credit                                                | ...  | ...   | ...   | ...  | 65   | 1,29 | 1,29 | 1,29 | 1,29 | 1,29 | 1,29 | 1,29 |
| (xviii) D.M. 40 million Credit (Specialised Project I)                       | ...  | ...   | ...   | ...  | 15   | 30   | 40   | 51   | 51   | 51   | 51   | 51   |

\* Due to revaluation of DM from 6-3-1961, the actual amount repaid or to be repaid is more than the amount actually drawn.

(b) Exchange variations.

|                                                 | 1   | 2     | 3       | 4     | 5     | 6     | 7     | 8     | 9        | 10       | 11       | 1     |
|-------------------------------------------------|-----|-------|---------|-------|-------|-------|-------|-------|----------|----------|----------|-------|
| (xix) D.M. 40 million, 1964                     | ... | ...   | ...     | ...   | ...   | ...   | 23    | 45    | 45       | 46       | 46       | 4     |
| (xx) D.M. 28.1 million, 1964                    | ... | ...   | ...     | ...   | ...   | ...   | 4     | 9     | 9        | 9        | 9        | ...   |
| (xxi) D.M. 74 million, 1963                     | ... | ...   | ...     | ...   | ...   | ...   | 1,18  | 1,18  | 1,18     | 1,18     | 1,18     | 1,1   |
| (xxii) D.M. 6.41 million Credit, 1965           | ... | ...   | ...     | ...   | ...   | ...   | ...   | 4     | 6        | 6        | 6        | ...   |
| (xxiii) D.M. 52.16 million Credit, 1967         | ... | ...   | ...     | ...   | ...   | ...   | ...   | 18    | 18       | 61       | 61       | 6     |
| (xxiv) D.M. 58.64 million Credit, 1969          | ... | ...   | ...     | ...   | ...   | ...   | ...   | 80    | 1,60     | 1,60     | 1,60     | 1,6   |
| (xxv) D.M. 62 million Credit, 1969              | ... | ...   | ...     | ...   | ...   | ...   | ...   | 85    | 1,69     | 1,69     | 1,69     | 1,6   |
| (xxvi) D.M. 76.3 million Credit, 1970           | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 1,04     | 2,08     | 2,08     | 2,0   |
| (xxvii) D.M. 23.5 million Credit, 1965          | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 26       | 26       | 26       | ...   |
| (xxviii) D.M. 12 million Credit, 1961           | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 7        | 14       | 14       | ...   |
| (xxix) D.M. 10 million Credit, 1965             | ... | ...   | ...     | ...   | ...   | ...   | ...   | 6     | 11       | 11       | 11       | ...   |
| (xxx) D.M. 60 million Credit, 1966              | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 67       | 67       | 67       | ...   |
| (xxxi) D.M. 18 million Credit, 1966             | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 20       | 20       | 20       | ...   |
| (xxxii) D.M. 7.25 million Credit, 1966          | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 8        | 8        | 8        | ...   |
| (xxxiii) D.M. 180 million Credit, 1967 (AL-303) | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...      | 1,02     | 1,02     | 2,0   |
| (xxxiv) D.M. 289 million Credit, 1967 (AL-382)  | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...      | 1,95     | 1,95     | 1,6   |
| (xxxv) D.M. 28.25 million Credit (AL-248)       | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...      | 16       | 16       | ...   |
| (xxxvi) DM 140 million Credit 1967 (AL-379)     | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...      | ...      | ...      | 1,5   |
| (xxxvii) DM 71 million Credit 1972 (AL-681)     | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...      | ...      | ...      | 1,9   |
| (xxxviii) DM 170.4 million Credit 1968 (AL-175) | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...      | ...      | ...      | 10    |
| (l) DM 16 million Credit 1968 (AL-354)          | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...      | ...      | ...      | 5     |
|                                                 |     |       |         |       |       |       |       |       | (b)19,00 | 20,16(b) | 21,90(b) |       |
| <b>Total</b>                                    |     | 5,58  | 1,03,38 | 70,61 | 24,70 | 28,16 | 31,05 | 33,97 | 38,12    | 57,89    | 59,05    | 63,55 |
| <b>VI.—Loans from Japan :</b>                   |     |       |         |       |       |       |       |       |          |          |          |       |
| (i) First Yen Credit                            | ... | 8,21  | 2,68    | ...   | 35    | 55    | ...   | 2,01  | 2,16     | 2,16     | 2,16     | ...   |
| (ii) Second Yen Credit                          | ... | ...   | 12,09   | 3,56  | ...   | 44    | 3,88  | 8,75  | 9,54     | 9,54     | 9,74     | ...   |
| (iii) Third Yen Credit                          | ... | ...   | ...     | ...   | ...   | 14    | ...   | 6,09  | 6,64     | 6,64     | 6,77     | ...   |
| (iv) Fourth Yen Credit                          | ... | ...   | ...     | ...   | ...   | ...   | 1,37  | 4,73  | 5,12     | 5,12     | 5,16     | ...   |
| (v) Fifth Yen Credit                            | ... | ...   | ...     | ...   | 2,08  | 4,16  | ...   | 4,15  | 4,15     | 4,15     | 4,15     | ...   |
| (vi) Sixth Yen Credit                           | ... | ...   | ...     | ...   | ...   | 1,59  | ...   | 3,19  | 3,19     | 3,18     | 3,18     | ...   |
| (vii) Seventh Yen Credit                        | ... | ...   | ...     | ...   | ...   | ...   | ...   | 2,24  | 2,24     | 2,24     | 2,24     | ...   |
| (viii) Food Aid                                 | ... | ...   | ...     | ...   | ...   | ...   | ...   | 53    | 52       | 52       | 52       | ...   |
| (ix) Eighth Yen Credit                          | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 1,63     | 1,63     | 1,63     | ...   |
| (x) VOH Credit                                  | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...      | ...      | 41       | ...   |
| (xi) Ninth Yen Credit                           | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...      | ...      | 1,48     | ...   |
|                                                 |     |       |         |       |       |       |       |       | 14,13(b) | 10,42(b) | 11,09(b) |       |
| <b>Total</b>                                    | ... | 8,21  | 14,77   | 3,56  | 2,43  | 8,25  | 3,88  | 31,69 | 49,32    | 45,60    | 48,53    |       |
| <b>VII.—Loans from Switzerland :</b>            |     |       |         |       |       |       |       |       |          |          |          |       |
| Credit for Third Plan                           | ... | ...   | 87      | 1,72  | 2,54  | 2,91  | 3,01  | 3,01  | 2,94     | 2,94     | 2,86     |       |
|                                                 |     |       |         |       |       |       |       |       | (b)1,16  | 1,46(b)  | (b)1,50  |       |
| (i) First Credit for Third Plan                 | ... | ...   | 4,16    | 2,98  | 3,84  | 4,11  | 4,12  | 4,15  | 3,56     | 3,56     | 3,40     |       |
| (ii) Second Credit for Third Plan               | ... | ...   | 1,77    | 2,01  | 3,32  | 3,41  | 3,65  | 3,81  | 4,66     | 3,98     | 3,95     |       |
| <b>Total</b>                                    | ... | ...   | 5,93    | 4,99  | 7,16  | 7,52  | 7,77  | 7,96  | 8,22     | 7,54     | 7,35     |       |
| <b>IX.—Loans from Yugoslavia :</b>              |     |       |         |       |       |       |       |       |          |          |          |       |
| (i) First Credit                                | ... | 17    | 5,17    | 3,46  | 3,63  | 3,14  | 2,68  | 1,98  | 1,91     | 1,91     | 3,28     |       |
| (ii) Second Credit                              | ... | ...   | ...     | ...   | 1     | 1     | 1     | 1     | 1        | 1        | 1        |       |
| <b>Total</b>                                    | ... | 17    | 5,17    | 3,46  | 3,64  | 3,15  | 2,69  | 1,99  | 1,92     | 1,92     | 3,29     |       |
| <b>X.—Loans from Poland :</b>                   |     |       |         |       |       |       |       |       |          |          |          |       |
| (i) First Credit                                | ... | 11    | 4,59    | 1,90  | 2,38  | 2,59  | 2,59  | 2,41  | 1,54     | 1,49     | 79       |       |
| (ii) Second Credit                              | ... | ...   | ...     | ...   | 10    | 10    | 23    | 23    | 24       | 23       | 35       |       |
| (iii) Third Credit                              | ... | ...   | ...     | ...   | ...   | ...   | ...   | 38    | 77       | 113      | 75       |       |
| <b>Total</b>                                    | ... | 11    | 4,59    | 1,90  | 2,48  | 2,69  | 2,82  | 3,02  | 2,55     | 2,85     | 1,89     |       |
| <b>XI.—Loans from Austria :</b>                 |     |       |         |       |       |       |       |       |          |          |          |       |
| (i) First Credit                                | ... | 36    | 1,12    | 37    | 37    | 38    | 39    | 39    | 39       | 20       | ...      |       |
| (ii) Second Credit                              | ... | ...   | 72      | 29    | 29    | 30    | 30    | 30    | 30       | 30       | 30       |       |
| (iii) Third Credit                              | ... | ...   | ...     | 15    | 30    | 32    | 32    | 32    | 32       | 32       | 32       |       |
| (iv) Fourth Credit                              | ... | ...   | ...     | ...   | 15    | 32    | 32    | 32    | 32       | 31       | 32       |       |
| (v) Fifth Credit                                | ... | ...   | ...     | ...   | ...   | 19    | 37    | 37    | 37       | 37       | 37       |       |
| (vi) Sixth Credit                               | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 8        | 8        | 15       |       |
| (vii) Food Aid                                  | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | 2        | 2        | 4        |       |
|                                                 |     |       |         |       |       |       |       |       | (b)69    | ...      | ...      |       |
| (viii) Debt Relief (1968)                       | ... | ...   | ...     | ...   | ...   | ...   | ...   | ...   | ...      | 72(b)    | 70(b)    |       |
| <b>Total</b>                                    | ... | 36    | 1,84    | 81    | 1,11  | 1,51  | 1,70  | 1,70  | 2,49     | 2,32     | 2,24     |       |
| <b>XII.—Loan from Kuwait Government :</b>       | ... | 14,91 | 13,20   | 4,34  | 4,34  | 4,34  | 1,08  | ...   | ...      | ...      | ...      |       |

(b) Exchange variations.

| 1                                          | 2     | 3     | 4     | 5    | 6     | 7     | 8     | 9     | 10            | 11            | 12            |
|--------------------------------------------|-------|-------|-------|------|-------|-------|-------|-------|---------------|---------------|---------------|
| XIII.—Loan from Netherlands :              | ...   | ...   | ...   | ...  | ...   | 71    | 85    | 1,21  | 1,20<br>(b)48 | 1,21<br>50(b) | 1,77<br>85(b) |
| XIV.—Loans from Denmark :                  |       |       |       |      |       |       |       |       |               |               |               |
| (i) First Credit                           | ...   | 10    | 44    | 15   | 15    | 15    | 15    | 15    | 11            | 11            | ...           |
| (ii) Second Credit                         | ...   | ...   | ...   | ...  | 13    | 13    | 13    | 13    | 13            | 13            | 13            |
| (iii) First Food Loan                      | ...   | ...   | ...   | ...  | ...   | 20    | 20    | 20    | 20            | 20            | 20            |
| (iv) Second Food Loan                      | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | (b)15         | (b)8          | 17            |
| (v) Third Credit                           | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | 22            |
| Total                                      | ...   | 10    | 44    | 15   | 28    | 48    | 48    | 48    | 59            | 52            | 97            |
| XV.—Loan from New Zealand :                |       |       |       |      |       |       |       |       |               |               |               |
| Credit for Purchase of wool                | ...   | 7     | 31    | 9    | ...   | ...   | ...   | ...   | ...           | ...           | ...           |
| XVI.—Loan from Bahrain:                    | ...   | ...   | 4,86  | 71   | 71    | 71    | 70    | 71    | 71            | 71            | 71            |
| XVI.—Loans from France :                   |       |       |       |      |       |       |       |       | (b)3          | 3(b)          | 3(b)          |
| (i) FF 17 million French Credit 1966-67    | ...   | ...   | 80    | 96   | 1,01  | 1,10  | 1,11  | 1,28  | 1,11          | 1,12          | 1,12          |
| (ii) FF 150 million Credit, 1967-68        | ...   | ...   | ...   | 1    | 8     | 33    | 1,07  | 1,34  | 1,40          | 1,39          | 1,48          |
| (iii) FF 125 million Credit, 1968-69       | ...   | ...   | ...   | ...  | 5     | 26    | 46    | 55    | 72            | 80            | 87            |
| (iv) FF 125 million Credit, 1969-70        | ...   | ...   | ...   | ...  | ...   | 7     | 28    | 54    | 82            | 81            | 84            |
| (v) FF 130 million Credit, 1970-71         | ...   | ...   | ...   | ...  | ...   | 4     | 28    | 31    | 52            | 52            | 82            |
| (vi) FF 150 million Credit 1971-72         | ...   | ...   | ...   | ...  | ...   | ...   | 23    | 51    | 67            | 82            | 89            |
| (vii) FF 25 million Debt Relief 1968-69    | ...   | ...   | ...   | ...  | ...   | ...   | 38    | 38    | 37            | 37            | 37            |
| (viii) FF 27.7 million Debt Relief 1969-70 | ...   | ...   | ...   | ...  | ...   | ...   | ...   | 42    | 42            | 42            | 41            |
| (ix) FF 150 million Credit 1972-73         | ...   | ...   | ...   | ...  | ...   | ...   | ...   | 34    | 66            | 85            | 91            |
| (x) FF 35 million Credit 1972-73           | ...   | ...   | ...   | ...  | ...   | ...   | ...   | 1     | 2             | 1             | 2             |
| (xi) FF 56 million Credit, 1972-73         | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | 3             | 4             | 16            |
| (xii) FF 27.7 million Credit, 1970-71      | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | 41            | 41            | 41            |
| (xiii) FF 180 million Credit, 1972-73      | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | 22            | 22            | 58            |
| (xiv) FF 214 million Credit 1973-74        | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | 3             |
| (xv) FF 27.7 million Debt Relief           | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | 41            |
| Total                                      | ...   | ...   | 80    | 97   | 1,14  | 1,80  | 3,81  | 5,68  | 9,61          | 9,76          | 11,80         |
| XVIII.—Loans from Belgium :                |       |       |       |      |       |       |       |       |               |               |               |
| (i) First Credit                           | ...   | ...   | ...   | ...  | ...   | ...   | 6     | 6     | 6             | 6             | 6             |
| (ii) Second Credit                         | ...   | ...   | ...   | ...  | ...   | ...   | 13    | 13    | 12            | 13            | 13            |
| (iii) Third Credit                         | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | (b)6          | 7(b)          | 12(b)         |
| Total                                      | ...   | ...   | ...   | ...  | ...   | ...   | 19    | 19    | 24            | 26            | 41            |
| XIX.—Loan from Qatar:                      | ...   | ...   | 3,52  | 94   | 94    | 94    | 94    | 94    | 94<br>(b)4    | 94<br>5(b)    | 94<br>(b)5    |
| XX.—Loan from Italy:                       | ...   | ...   | ...   | ...  | 6     | 12    | 12    | 58    | 58<br>(b)7    | 58            | 1,43          |
| XXI.—Miscellaneous Credits:                | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | 4,92          | 3,10          | 94            |
| XXII.—Loan from Norway:                    | ...   | ...   | ...   | ...  | ...   | ...   | ...   | 17    | ...           | ...           | ...           |
| XXIII.—Loans from Sweden 1964:             | ...   | ...   | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | 17<br>5(b)    |
| INTERNATIONAL AGENCIES                     |       |       |       |      |       |       |       |       |               |               |               |
| XXII.—I.B.R.D. Loans :                     |       |       |       |      |       |       |       |       |               |               |               |
| (i) Agricultural Machinery Project Loan    | 3,43  | ...   | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | ...           |
| (ii) Railway Project Loan I                | 10,99 | 4,63  | ...   | ...  | ...   | ...   | ...   | ...   | ...           | ...           | ...           |
| (iii) Railway Project Loan II              | ...   | 15,36 | 5,69  | ...  | ...   | 7,56  | 3,91  | ...   | ...           | ...           | ...           |
| (iv) Railway Project Loan III              | ...   | 5,74  | 5,63  | 38   | 90    | 3,94  | 4,12  | 4,36  | 4,61          | 4,61          | 4,88          |
| (v) Railway Project Loan IV                | ...   | 3,15  | 3,61  | 1,94 | 2,05  | 2,24  | 2,32  | 2,45  | 2,60          | 2,60          | 2,76          |
| (vi) Railway Project Loan V                | ...   | 3,13  | 6,29  | 2,58 | 2,73  | 2,89  | 3,06  | 3,24  | 3,43          | 3,43          | 3,63          |
| (vii) Railway Project Loan VI              | ...   | 1,30  | 3,87  | 1,74 | 1,84  | 1,72  | 2,06  | 2,18  | 2,31          | 2,31          | 2,45          |
| (viii) D.V.C. I                            | 2,54  | 2,60  | 2,72  | 1,04 | 53    | ...   | ...   | ...   | ...           | ...           | ...           |
| (ix) D.V.C. II                             | 75    | 95    | 35    | ...  | ...   | 46    | 46    | 48    | 51            | 51            | 53            |
| (x) D.V.C. III                             | ...   | 2,09  | 76    | ...  | ...   | 99    | 1,05  | 1,11  | 1,17          | 1,17          | 1,23          |
| (xi) Koyana Project Loan (I Stage)         | ...   | 25    | 1,05  | 28   | 54    | 59    | 61    | 64    | 67            | 67            | 71            |
| (xii) Coal Industry                        | ...   | ...   | 3,83  | 1,83 | 1,94  | 2,07  | 2,17  | 2,30  | 2,43          | 2,43          | 2,58          |
| (xiii) Power Transmission (416-IN)         | ...   | ...   | ...   | ...  | ...   | 56    | 1,05  | 1,11  | 1,17          | 1,17          | 1,23          |
| (xiv) Kothagudem II (417-IN)               | ...   | ...   | ...   | ...  | ...   | 13    | 30    | 31    | 33            | 33            | 35            |
| Total                                      | 17,71 | 39,20 | 33,80 | 9,79 | 10,53 | 23,15 | 21,11 | 18,18 | 20,90         | 20,63         | 22,00         |

NOTE.—Figures shown under Columns 2 to 4 of the statement are at pre-devaluation rates of exchange.

(b) Exchange variations.

| 1                                  | 2     | 3       | 4       | 5       | 6       | 7       | 8       | 9        | 10      | 11      | 12      |
|------------------------------------|-------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|
| <b>XXIII.—J.D.A. :</b>             |       |         |         |         |         |         |         |          |         |         |         |
| (i) Roads Project                  | ...   | ...     | ...     | ...     | ...     | 45      | 48      | 54       | 54      | 54      | 54      |
| (ii) U.P. Tubewell Project         | ...   | ...     | ...     | ...     | ...     | 2       | 5       | 5        | 5       | 5       | 5       |
| (iii) Shetrunji Irrigation         | ...   | ...     | ...     | ...     | ...     | ...     | 3       | 3        | 3       | 3       | 3       |
| (iv) Salandi Irrigation            | ...   | ...     | ...     | ...     | ...     | ...     | 6       | 6        | 7       | 7       | 7       |
| (v) Punjab Drainage                | ...   | ...     | ...     | ...     | ...     | ...     | 8       | 9        | 8       | 9       | 9       |
| (vi) D.V.C. IV                     | ...   | ...     | ...     | ...     | ...     | ...     | 13      | 15       | 15      | 15      | 15      |
| (vii) Sone Irrigation              | ...   | ...     | ...     | ...     | ...     | ...     | 6       | 14       | 14      | 14      | 14      |
| (viii) Purna Irrigation            | ...   | ...     | ...     | ...     | ...     | ...     | 5       | 12       | 12      | 12      | 12      |
| (ix) Koyna Project (IInd Stage)    | ...   | ...     | ...     | ...     | ...     | ...     | 7       | 16       | 16      | 16      | 16      |
| (x) Bombay Port Trust              | ...   | ...     | ...     | ...     | ...     | ...     | 6       | 13       | 14      | 13      | 14      |
| (xi) P & T (Telecommunications)    | ...   | ...     | ...     | ...     | ...     | ...     | 17      | 38       | 38      | 38      | 38      |
| (xii) Railway Project VII          | ...   | ...     | ...     | ...     | ...     | ...     | ...     | 58       | 58      | 61      | 61      |
| (xiii) Kothagudem Power Project    | ...   | ...     | ...     | ...     | ...     | ...     | ...     | 9        | 18      | 18      | 18      |
| (xiv) Industrial Imports 52-IN     | ...   | ...     | ...     | ...     | ...     | ...     | ...     | ...      | 41      | 41      | 81      |
| (xv) II Telecommunication Project  | ...   | ...     | ...     | ...     | ...     | ...     | ...     | ...      | 15      | 15      | 30      |
| (xvi) VIII Railway Project         | ...   | ...     | ...     | ...     | ...     | ...     | ...     | ...      | 56      | 56      | 56      |
| (xvii) II Industrial Imports 78 IN | ...   | ...     | ...     | ...     | ...     | ...     | ...     | ...      | ...     | ...     | 45      |
|                                    |       |         |         |         |         |         |         |          | (b)32   | (b)30   | (b)40   |
| <b>Total</b>                       | ...   | ...     | ...     | ...     | ...     | 47      | 1,24    | 2,52     | 4,06    | 4,07    | 5,18    |
| <b>Grand Total</b>                 | 48,50 | 3,08,63 | 4,66,90 | 1,74,99 | 1,90,28 | 1,91,68 | 2,22,25 | 19,52,00 | 2,97,32 | 2,93,29 | 3,15,78 |

(b) Exchange variations.

### Capital and Loans to Public Sector Undertakings

This table gives, at one place, the estimates of the capital and loans to be provided by government to financial institutions and undertakings in the public sector during the current and the next year.

(In lakhs of Rupees)

| Name of Institution                                        | Budget, 1974-75 |         |         | Revised, 1974-75 |         |         | Budget, 1975-76 |         |         |
|------------------------------------------------------------|-----------------|---------|---------|------------------|---------|---------|-----------------|---------|---------|
|                                                            | Capital         | Loan    | Total   | Capital          | Loan    | Total   | Capital         | Loan    | Total   |
| <b>FINANCIAL INSTITUTIONS</b>                              |                 |         |         |                  |         |         |                 |         |         |
| Shipping Development Fund Committee                        | ..              | 71,50   | 71,50   | ..               | 68,50   | 68,50   | ..              | 59,97   | 59,97   |
| Agricultural Refinance Corporation                         | ..              | 40,00   | 40,00   | ..               | 50,00   | 50,00   | ..              | 50,00   | 50,00   |
| National Co-operative Development Corporation              | ..              | 6,65    | 6,65    | ..               | 3,60    | 3,60    | ..              | 13,10   | 13,10   |
| Land Mortgage Banks                                        | 9,00            | ..      | 9,00    | ..               | ..      | ..      | 6,00            | ..      | 6,00    |
| Repatriates Co-operative Finance and Development Bank Ltd. | 6               | 6       | 6       | 5                | ..      | 5       | 5               | 20      | 25      |
| Newspaper Finance Corporation                              | 20              | 20      | ..      | ..               | ..      | ..      | 20              | ..      | 20      |
| Industrial Credit and Investment Corporation of India      | ..              | 21      | 21      | ..               | 21      | 21      | ..              | 21      | 21      |
| Industrial Finance Corporation                             | ..              | 1,83    | 1,83    | ..               | 21      | 21      | ..              | 27      | 27      |
| Industrial Development Bank of India                       | 50,00           | 15,00   | 65,00   | ..               | 1,50    | 1,50    | ..              | 6,00    | 6,00    |
| General Insurance Corporation                              | 6,36            | ..      | 6,36    | 6,36             | ..      | 6,36    | ..              | ..      | ..      |
| Delhi Small Industries Development Corporation             | 40              | ..      | 40      | 54               | 25      | 79      | 47              | ..      | 47      |
| <b>Total</b>                                               | 66,02           | 1,35,19 | 2,01,21 | 6,95             | 1,24,27 | 1,31,22 | 6,72            | 1,29,75 | 1,36,47 |

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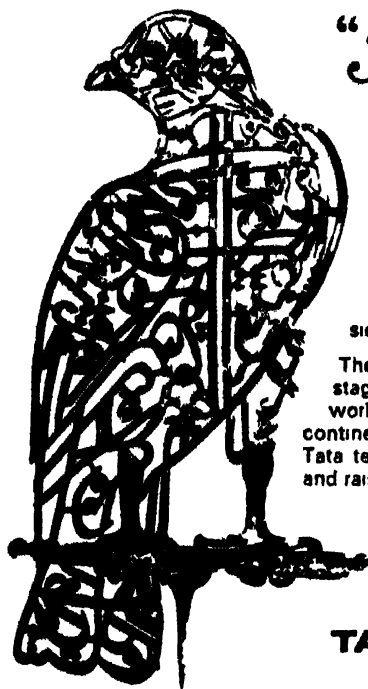
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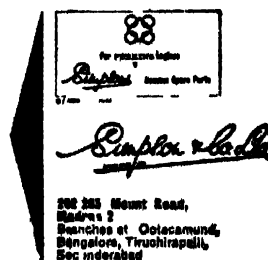
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|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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# Economic survey : 1974-75

THE FIRST year of the fifth five-year Plan period i.e. 1974-75 put up a dismal performance. The growth in national income and the rates of savings and investment were completely out of tune with the general pattern of development assumed in the draft of the fifth Plan. The Economic Survey for 1974-75 prepared by the ministry of Finance and released a few days ahead of the central budget came to this conclusion after analysing the developments in all the major sectors of the economy.

Given below are the first and the last chapters of the Survey in full. They describe not only what transpired in 1974-75 but also the expectations of the ministry of Finance in 1975-76.

By all accounts, 1974-75 was a year of unprecedented economic strains in the history of independent India. However, it was also a year of determined action on the part of the government, demonstrating vividly the basic resilience of our democratic polity in grappling with crisis situations.

## Unprecedented strain

The first half of the year recorded the sharpest rate of increase in prices in the post-war years. Several factors contributed to this outcome. There was the disproportionate expansion of money supply inherited from the two previous years. Inflationary expectations also seem to have received an added impetus in the earlier part of the year because of unsatisfactory production and procurement of foodgrains during the 1974 rabi season. There was also a large increase in prices of various petroleum products as well as fertilisers in the beginning of the year—which was, in turn, an inevitable by-product of steep increase in post-

ed prices of crude oil in January, 1974.

The overall international environment of inflation, leading to a sharp increase in prices of a large number of imported products of basic importance to the economy, gave further stimulus to the already strong inflationary impulses operating in the economy. In a situation in which international prices of commodities such as foodgrains were much higher than domestic prices, imports, even when physically available, could not exercise a visible downward pressure on domestic prices. However, while international factors undoubtedly aggravated the situation, it must be recognised that the inflationary pressures of the last two years are basically rooted in some of the obvious inadequacies of our domestic economic structure, the principal manifestation of which can be found in the continued sluggishness of agricultural production since 1971-72.

## Salutary measures

Faced with the gravity of the economic crisis, the government took vigorous measures designed to moderate the growth of monetary demand and to discourage unduly large accumulation of stocks. The combined result of the tax proposals contained in the regular annual budget for 1974-75 as well as the second Finance Act, the increase in postal rates and the enhancement of railway fares and freight twice in the year, was the mobilisation of a record amount of Rs 690 crores by way of additional financial resources by the central government in 1974-75. In a full year, these measures are expected to yield Rs 935 crores. The states also put in significant efforts at additional resource mobilisation, yielding Rs 358 crores in 1974-75. On any reckoning, this was an impressive attempt at resource mobilisation. It is, however,

unfortunate that a large part of these resources has been absorbed by inescapable commitments of non-developmental, though by no means non-essential, expenditure.

The government made strenuous efforts to maintain the tempo of investment activity in the vital core sectors of the economy. During the course of the year, additional funds were allocated to these sectors to meet the unavoidable increases in project costs. Nevertheless, it cannot be denied that the pace of public sector investment could not be sustained at an adequate level. This was unavoidable in a year in which concern with price stability had, quite justifiably, the first priority in the mind of policy makers. To the extent various measures of resource mobilisation have led to a reduction in the magnitude of deficit financing and slowed down the expansion of money supply, they have helped to create a macro environment conducive to greater economic stability.

## Regulating incomes

Measures for additional resource mobilisation were supplemented by more direct attempts at regulation of disposable consumer incomes. Thus the legislation impounding a part of additional dearness allowances and the entire increase arising from revision of wages and salaries, imposition of restrictions on declaration of dividends beyond stipulated limits and compulsory savings for tax payers in higher income brackets, represented a serious effort at moderating the growth of household spending. The increase in interest rates and exercise of greater discipline since the 1974 slack season in the expansion of bank credit to the commercial sector were designed to encourage savings and to provide a disincentive to excessive accumulation of inventories. It is possible that some of these measures pro-

duced unintended adverse side effects. However, their overall impact thus far in the current year has been to bring about a visible reduction in the rate of growth of money supply. In a year, which is likely to be characterised by hardly any growth in real national income, a more rapid increase in money supply would have greatly intensified the inflationary pressures.

## Drive against smugglers

As part of a package of anti-inflationary measures, government also intensified its operations against smugglers, hoarders and black marketeers. The active use of MISA against smugglers and other anti-social elements seems to have immobilised a part of black money, hitherto being used to finance an undue accumulation of inventories. The resulting reduction in the velocity of circulation of money has encouraged dis-hoarding of sensitive commodities and, as such has assisted in stabilising the price level.

The adoption of various measures designed to moderate the growth of money expansion does not imply a blind faith in the monetarist approach to problems of economic policy. However, considering the exceptionally large growth of money supply in recent years, one does not have to subscribe to the monetarist prescriptions to conclude that greater financial and monetary discipline must constitute an essential element of any stabilisation policy. At the same time, it is recognised that in a predominantly agrarian economy, food prices form the king-pin of the price structure and that these prices can be stabilised only by ensuring a proper balance between demand and supply. Since in the short run, output could not be increased significantly, there was no alternative to sizeable imports of foodgrains. Accordingly, government arranged to im-



port about five million tonnes of foodgrains in 1974-75. Moreover, in order to influence the state of price expectations, in the closing months of 1974, the government firmly resisted sectional pressures for higher procurement prices, which could not be justified by the objective requirements of increased production or procurement.

#### Favourable Impact

The behaviour of prices since the third week of September, 1974 indicates that the various stabilisation measures have had a favourable impact. The fall in prices in the last quarter of 1974, notwithstanding an unsatisfactory kharif crop, suggests some weakening of inflationary forces. The improved prospects for the forthcoming rabi crop can be expected to have a further moderating influence on prices. Even then, it has to be recognised that there are still sizeable imbalances in the demand and supply of basic wage goods. As such, it will be unwise to assume as of now, that the struggle against inflation has been

brought to a successful conclusion.

The performance of some important sectors of the economy in 1974-75 is summarised in the following paragraphs.

#### National Income

Official estimates of national income in 1973-74 indicate that the growth rate was only 3.1 per cent. The overall rate of growth of the economy during the fourth Plan averaged about three per cent per annum. This is a disappointing performance for any economy in which population is increasing at an average annual rate of 2.2 per cent. Since effective solutions for the basic problems of poverty and under-development can be found only through rapid economic growth, our objective must be to gear the economy to a higher growth rhythm than it has been used to in the past. Unfortunately, no visible progress is likely to have been made in this direction in 1974-75 since the economy on current expectations, is not likely to record a rate of

growth of more than one per cent.

Official estimates of saving and investment for 1973-74 are still not available. However, it appears that the steep rise in the price level has adversely affected the rate of saving in the economy. Due to lack of data on savings in the form of physical asset formation in the household sector, a broad idea of the saving of this sector has necessarily to be based on data on net financial assets of this sector.

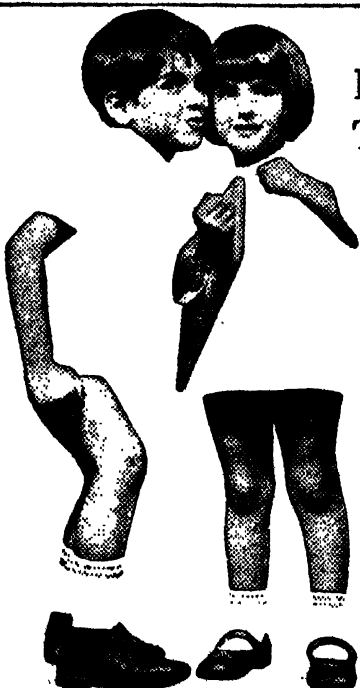
#### Household savings

The Reserve Bank has estimated that household saving in the form of financial assets at current prices increased by only Rs. 329 crores in 1973-74. Computed in real terms, the increase would be negligible. While in terms of current prices, the saving of the public sector consisting of central and state governments (including local authorities) and their undertakings was perhaps a shade better than in the previous year, here again, in real terms, there appears to have been a decline

on account of the price rise. In respect of the private non-financial corporate sector also, it is estimated that its saving in 1973-74 was stagnant at the 1972-73 level. In sum, therefore, the aggregate domestic saving in 1973-74 seems to have declined in real terms.

#### Capital formation

As regards investment, some idea of the capital formation in the public sector in 1973-74 can be formed on the basis of economic classification of the central budget. These data shows that, although in money terms there was a marginal increase in capital formation, in real terms there was a significant decline. It is not possible to give even an approximate estimate of capital formation in the household sector for lack of adequate data. In regard to the private non-financial corporate sector, however, an overall view about the trend of investment based on the flow of funds to this sector for investment purposes through financial intermediaries, capital issues and its own investible funds generated through retained profits and



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depreciation provision can be formed. Based on these data the Reserve Bank has estimated that the gross capital formation of the corporate sector increased by less than nine per cent in 1973-74 compared to an increase of 13.5 per cent in the preceding year.

In aggregate terms, both domestic saving and investment as a proportion of national income seem to have declined in 1973-74 as compared to 1972-73. While domestic saving was about 10 per cent of national income, investment may have been around 11 per cent of national income. There is unlikely to have been any improvement in 1974-75. This is an indication of the task that lies ahead in our quest for a more dynamic economy.

#### Agricultural situation

There is considerable evidence to suggest that India's agriculture seems to have lost the momentum for growth it exhibited in the late sixties. The index of agricultural production reached a record level of 131.6 in 1973-74. However it was only marginally higher than the previous peak level of 131.4 reached in 1970-71. The fact that the population of the country has since increased by nearly seven per cent underscores the imbalance between availability and requirements

as a result of the sluggishness of agricultural output.

In large measure, adverse weather conditions have been responsible for this unsatisfactory state of affairs. However, it would be a mistake to regard the continued sluggishness of agricultural output as being due wholly to the operation of such random factors as weather conditions. For example, the decline in the output of wheat after 1971-72 is partly attributable to the appearance of a new rust disease affecting Kalyan Sons. Because of more favourable weather conditions, the output of wheat during the coming rabi season may well stage a recovery. Nevertheless, the maintenance of a healthy upward trend in the output of wheat is crucially linked to the availability of new rust resistant varieties of seed.

#### Stagnant production

As regards rice, despite a three and a half times increase in the area under high yielding varieties in the fourth Plan period, there has been no visible acceleration of the rate of growth of productivity in the traditional rice growing states. Although output in 1973-74 reached the record level of 43.7 million tonnes, it was only marginally higher

than the previous peak level of 43.1 million tonnes reached in 1971-72. The output of rice in the 1974 kharif season is estimated to have declined by nearly 1.7 million tonnes from the level of 40.7 million tonnes reached in the kharif season of 1973. Susceptibility of new varieties to pests and diseases, particularly under conditions of lack of effective control on water supply, continues to pose a major problem. Among coarse grains, with the exception of bajra, the new high yielding varieties have yet to establish their popularity. As for pulses, there are at present no effective high yielding varieties.

#### Commercial crops

Production in the fourth Plan period averaged 10.9 million tonnes, which was only slightly above the average for the first Plan (10.7 million tonnes). Among commercial crops, the new varieties seem to have made a visible impact only in the case of cotton. Even in this case, output after 1971-72 has failed to reach the peak level of 6.6 million bales attained in 1971-72. Output declined to 5.4 million bales in 1972-73 but recovered to 5.8 million bales in 1973-74. In 1974-75, the output is likely to be about 6.0

million bales. There are indications that while the output of sugarcane in 1974-75 may be about the same as in 1973-74, there is likely to be a decline in the production of both oilseeds and raw jute.

On current reckoning, the Index of Agricultural Production in 1974-75 is unlikely to record any significant increase. The output of foodgrains may be about the same as the level of 103.6 million tonnes reached in 1973-74. The subgroup index of commercial crops may record a decline.

#### Industrial Production

Industrial output in the first seven months of 1974 increased by 2.3 per cent. Judging by the available production data for subsequent months, the rate of growth of industrial production in 1974 may be about 2.5 per cent as compared to 0.7 per cent in 1973. However, for the fiscal year 1974-75, the increase in industrial production may be of the order of 3.5 per cent as compared to 0.5 per cent in 1973-74.

In the earlier part of the year, factors such as shortages of power, fuel and transport facilities hampered industrial production. More recently, there has been a notable improvement in the generation of power and in the production and transport of coal. However, on account of none too encouraging prospects for increased availability of agricultural raw materials, the overall outlook for industrial production continues to be uncertain. In the meanwhile, if unsettled conditions in industrial countries affect the demand for our exports, this could be a further complicating factor.

It is a matter of considerable satisfaction that many public sector undertakings continue to record higher levels of production. Output in a number of core sector industries has shown encouraging trends. According to advance information which is necessarily of a provisional

#### Selected Economic Indicators

|                                                        | 1969-70                                | 1970-71 | 1971-72 | 1972-73 | 1973-74 | 1974-75 |
|--------------------------------------------------------|----------------------------------------|---------|---------|---------|---------|---------|
|                                                        | (Percentage change over previous year) |         |         |         |         |         |
| 1. National Income at constant (1960-61) prices        | 5.7                                    | 4.9     | 1.4*    | -0.9*   | 3.1**   | 1.0(E)  |
| 2. Agricultural production                             | 6.7                                    | 7.3     | -0.4    | -7.1*   | 9.1*    | —       |
| 3. Foodgrains production                               | 5.8                                    | 9.0     | -3.0    | -7.7*   | 6.8*    | —       |
| 4. Industrial production                               | 7.4                                    | 3.0     | 3.3     | 5.3     | 0.5     | 3.8†    |
| 5. Electricity generated                               | 14.4                                   | 8.4     | 8.8     | 4.8     | 1.6     | 7.8††   |
| 6. Wholesale prices                                    | 3.7                                    | 5.5     | 4.0     | 9.9     | 22.6    | 27.2£   |
| 7. Money supply                                        | 10.8                                   | 11.2    | 13.1    | 15.9    | 15.3    | 3.1@    |
| 8. Imports                                             | -17.1                                  | 3.3     | 11.6    | -1.5    | 56.4    | 53.8††  |
| 9. Exports                                             | 4.1                                    | 8.6     | 4.8     | 21.9    | 25.9    | 36.2††  |
| 10. Freight carried by railways (net tonne kilometres) | 2.5                                    | -0.7    | 4.6     | 2.5     | -10.4   | 3.7††   |

(E) Estimated \* Provisional \*\* Quick estimate † April-July, 1974 compared to April-July, 1973. £ April-December, 1974 compared to April-December, 1973. @ As on January 31, 1975 compared to March 31, 1974. †† April-November, 1974 compared to April-November, 1973.

nature. Industries such as electricity generation, steel and coal recorded a significant increase in output during the period April to December, 1974 as compared to the corresponding period of 1973.

#### Power output

The output of electricity went up by 6.0 per cent, of saleable steel from principal producers by 10.4 per cent and of coal by 8.5 per cent. The output of nitrogenous fertilisers went up by 8.0 per cent though that of phosphatic fertilisers went down by 7.1 per cent. On the debit side, industries like cement and aluminium recorded a fall in output by 3.5 per cent and by 17.0 per cent respectively. Among consumer goods the production of vanaspati declined by 29.3 per cent.

While the output of cotton yarn remained stagnant, that of mill made cotton cloth went up by 3.9 per cent. The output of commercial vehicles declined by 6.7 per cent while that of cars and jeeps went

down by 23.7 per cent and 19.7 per cent respectively. The output of scooters went up by 15.0 per cent. Vehicular diesel engines recorded an impressive growth of 45.2 per cent.

Although the capital market and, in particular, the new issues market, has been depressed since the ordinance imposing restrictions on dividends was issued in July, 1974, the data relating to approvals by the Capital Goods Committee, and demand for funds from the term financing institutions do not indicate any visible slackening of industrial investment in 1974-75. However, since investment behaviour is often subject to unpredictable moods of pessimism and optimism, the situation needs to be carefully watched so as to facilitate a flexible response to the emerging situation.

#### Wholesale prices

The Wholesale Price Index reached its highest peak in the

weak ending September 21, 1974. The index at that point was 32 per cent higher than during the corresponding week of 1973. In the following three months, prices declined by about five per cent. As a result, the index at the end of December, 1974 was 18.8 per cent higher than at the end of December, 1973. This is to be contrasted with an increase of 26 per cent in the index between December, 1972 and December, 1973. Despite the welcome relief of recent months, the average value of the Wholesale Price Index in 1974 went up by 27.3 per cent as compared to the average increase of 19.2 per cent in 1973. This is an indication not only of the continuing strength of the inflationary forces in the economy but also of severe distortions that inflation has introduced in our economic structure.

It has to be noted that nearly one-half of the rise in the Wholesale Price Index both in 1973 and 1974 was due to a steep increase in the prices of food articles. The improved prospects for the forthcoming rabi crop, the fact that government have arranged to import sizeable quantities of foodgrains to maintain an orderly flow of foodgrains through the public distribution system and a reduction in the rate of growth of money supply can be expected to have some stabilising effect on prices.

#### Impact absorbed

The impact of the sharp increase in the prices of petroleum products would by now appear to have been largely absorbed in the price structure. Taking all these factors into account, one can expect, that in the coming months, the rate of growth of prices will slow down as compared to the corresponding period of the last year. However, given the existing precarious balance between demand and supply of basic wage goods and the known instability of agricultural output, it cannot be readily assumed that, with that additional efforts, we can

look forward to a regime of reasonable price stability.

Available data indicate that despite various efforts by the central government to mobilise additional resources and curb less essential expenditure the budgetary deficit in 1974-75 will turn out to be much higher than the figure of Rs 126 crores mentioned in the budget estimates. This is due to higher expenditure than was originally budgeted for on items such as food and fertiliser subsidy, payment of dearness allowance to the government employees, certain commitments to the states on account of drought relief and budgetary support for a number of public sector enterprises for meeting their cash losses.

#### Lower deficit

Nevertheless, it is a matter of some satisfaction that during the current year so far, deficit financing at the centre, as measured by the net increase in the Reserve Bank credit to the central government, has been running at a rate lower than that of the last year. The improvement is much more marked if one takes into account both the centre, and the states. The net increase in the Reserve Bank credit to government (centre and states combined) works out to Rs 540 crores during the current fiscal year upto January 31, 1975 as compared to Rs 807 crores during the corresponding period of 1973-74.

As a result of a more selective credit policy, the rate of growth of bank credit to commercial sector during the current year so far has been significantly less than last year. Thus between March 31, 1974 and January 31, 1975 the increase of Rs 959 crores in bank credit to commercial sector was considerably lower than the increase of Rs 1,287 crores last year.

As a combined result of smaller expansion in bank credit both to government and to the commercial sector, and a decline in foreign exchange assets of the banking system, there has been a

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visible reduction in the rate of growth of money supply in the current year. The expansion in money supply amounted to Rs. 337 crores between March 31, 1974 and January 31, 1975 as against 960 crores witnessed during the corresponding period of 1973-74. There has been a sizeable contraction in the currency component of money supply during the current year so far (till January 1975) in contrast to an increase of Rs. 565 crores in the corresponding period of 1973-74.

#### Balance of payment

The steep increase in the prices of imported fuel, food and fertilisers has given rise to renewed pressures on our balance of payments, even though this pressure has so far been contained within manageable limits as a result of a significant increase in the value of our exports as well as large borrowing from the IMF.

According to the customs

data, exports during 1973-74, increased by about 26 per cent as compared to 1972-73. On the other hand, the value of total imports recorded a still sharper increase of nearly 56 per cent. As a result, the balance of trade showed a deficit of Rs. 437.7 crores in 1973-74 as compared to a surplus of Rs. 100.3 crores in 1972-73. During the first eight months of 1974-75, the trend towards a faster expansion of imports than that of exports has continued. While exports moved up by 36 per cent the rise in the value of imports was of the order of 54 per cent, resulting in an adverse trade balance of Rs. 425 crores.

#### IMF facility

In February 1974, India drew Rs. 62.6 crores under the compensatory financing facility of the IMF. In the current year, India has so far drawn Rs. 488 crores from the IMF. The IMF borrowings have to be repaid in the coming 3 to 7 years. This implies that unless India's imports decline in the

coming years or exports display a much greater buoyancy than was the case in the past, we shall be faced with a balance of payments problem of unusual severity. In this context the highest priority needs to be attached to reducing our dependence on imported food-grains as well as imported oil and fertilisers. In any viable planning for our balance of payments, we must also take note of the continuing weakness of India's export promotion efforts.

#### Fortuitous circumstances

The recent increase in the value of exports is mostly a consequence of fortuitous circumstances connected with world inflation and the international commodity boom. In volume terms, India's exports in 1973-74 grew no faster than 3.6 per cent and the average annual rate of growth of export volume in the fourth Plan period was no higher than 4.2 per cent. With the expected decline in international commodity prices to their more

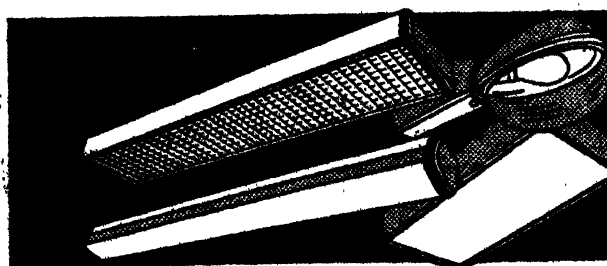
normal levels, India's export earnings may receive a visible setback unless we can revitalise our promotional efforts.

#### Year in Retrospect

1974-75 happened to be the first year of the fifth Plan. Unfortunately judging by such criteria as the rate of growth of national income and rate of saving and investment, the economy's performance during this year has been out of line with the expectations underlying the draft fifth Plan document. This was perhaps inevitable in a year in which the economy experienced not only a considerable shortfall in agricultural output in the kharif season but also received severe external shocks. In view of the acute inflationary pressures, the foremost concern of economic policy was to impart a measure of stability to the economy. Since no viable development strategy could be implemented in the background of steeply rising prices, it was inevitable that longer term goals had to give precedence

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to the short term task of economic stabilisation.

It would still be premature to assume that the economy was on the threshold of a new era of price stability. Nevertheless, the continuing concern with problems of stability has to be matched by selective stimuli at strategic points, designed to raise the rate of saving and investment in the economy. Unless the economy grows, even price stability in a poor country such as ours will elude us. This is a measure of the challenge that policy planners will have to face in 1975-76.

### Outlook for 1975-76

Forecasting the rate of growth of an economy in which agriculture accounts for nearly one-half of national income is always a risky venture. In any such evaluation one has to take note of the continuing operation of a number of domestic constraints as well as the increased uncertainty of the international trading environment which

may act as inhibiting factors in any marked step-up in the rate of growth of national income during 1975-76. Nevertheless, the available information in respect of some important sectors of the economy points to an improvement in the overall performance of the economy in the coming year even though no dramatic changes can be expected in the short run.

### Green revolution

Reference has been made earlier in this *Survey* to the limited impact of the Green Revolution on agricultural production, as also to a certain deterioration in the quality of seeds which has affected the production of wheat since 1971-72. Nevertheless, considering the fact that since 1970-71 the irrigation potential has increased by nearly 3 to 4 million hectares and that the high-yielding varieties now cover a much larger area, it should be possible to sustain a higher growth rate in agricultural output in the years to come. Uncertainty regarding

the availability of fertilisers and a steep increase in their prices since May 1974, however, complicate the picture and make it difficult to form a definite judgement about the likely growth of agricultural production in the coming years. It is, of course, obvious that a substantial increase in the rate of growth of food production is greatly dependent on the achievement of a breakthrough in the productivity of rice and coarse grains. Among commercial crops, only raw cotton offers some promise in the short run, even though the expectations aroused earlier by the discovery of new varieties such as MCU-5 and Hybrid-4 have had to be modified considerably since then.

### Growth of power

As for industrial production, the power supply is expected to maintain a rate of growth of about 10 per cent in 1975-76, assuming normal rainfall. The production of coal and steel can also be expected to show an upward trend. These factors should provide a significant stimulus to increased production in industry, provided that the transport bottleneck ceases to be as important a constraint as was the case in the past. However, the international trading environment has become more unfavourable and this may well affect exports of some of our industrial products.

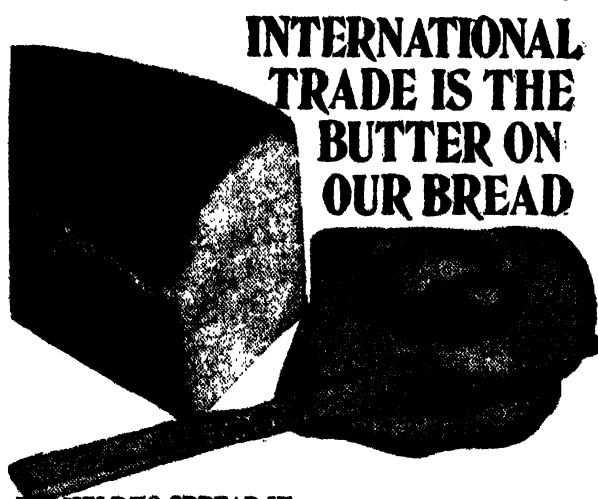
Greater utilisation of industrial capacity would facilitate a significant increase in industrial output. Yet it has to be recognised that fuller utilisation of capacity in capital goods and intermediate products is linked in an important manner to the progress of public sector investment. If the stringency of financial resources stands in the way of a significant step-up of investment in the public sector, this will affect capacity utilisation. Moreover, one has to take note of the inevitable fluctuations in the production of important industrial raw materials of agricultural origin. Nevertheless, on current

expectations, the overall rate of growth of industrial production in 1975-76 is likely to be higher than in 1974-75.

In the short run, we have only a limited margin of manoeuvrability in bringing about a sharp acceleration in the overall rate of growth. Nevertheless, economic policy planners must grapple in 1975-76 with the task of raising the rate of growth of national income in years to come beyond the trend rate of 3 to 3.5 per cent which seems to have become the unenviable lot of the economy in the last fifteen years. This is by no means going to be an easy task since inflationary tendencies in the economy are still very strong and any expansionist policy will have to be so devised as not to accentuate the existing pressures in the economy. A premature general reflation of demand will give a fresh lease of life to inflationary expectations, and in that event, price may tend to rise even faster than in the last two years. It is, therefore, imperative that the needed stimulus to the economy must be planned in the context of continued overall emphasis on fiscal and monetary restraint.

### Increase in production

Although there has recently been considerable talk of a recession, the available indicators point to a gradual increase in the industrial production in the coming months. Of course, the insistence of some segments of industry to maintain prices, in face of consumer resistance, at a level yielding abnormally high profit margins of the last two years, might lead to some temporary reduction in capacity utilisation in certain sectors. However, in all such cases, the emphasis must be on persuading industry to pursue more realistic pricing policies than for the government to relax prematurely the fiscal and credit curbs. All the same, one cannot rule out the possibility that the current state of business psychology, coupled with uncertain prospects for some of our industrial exports, and the sluggishness in public



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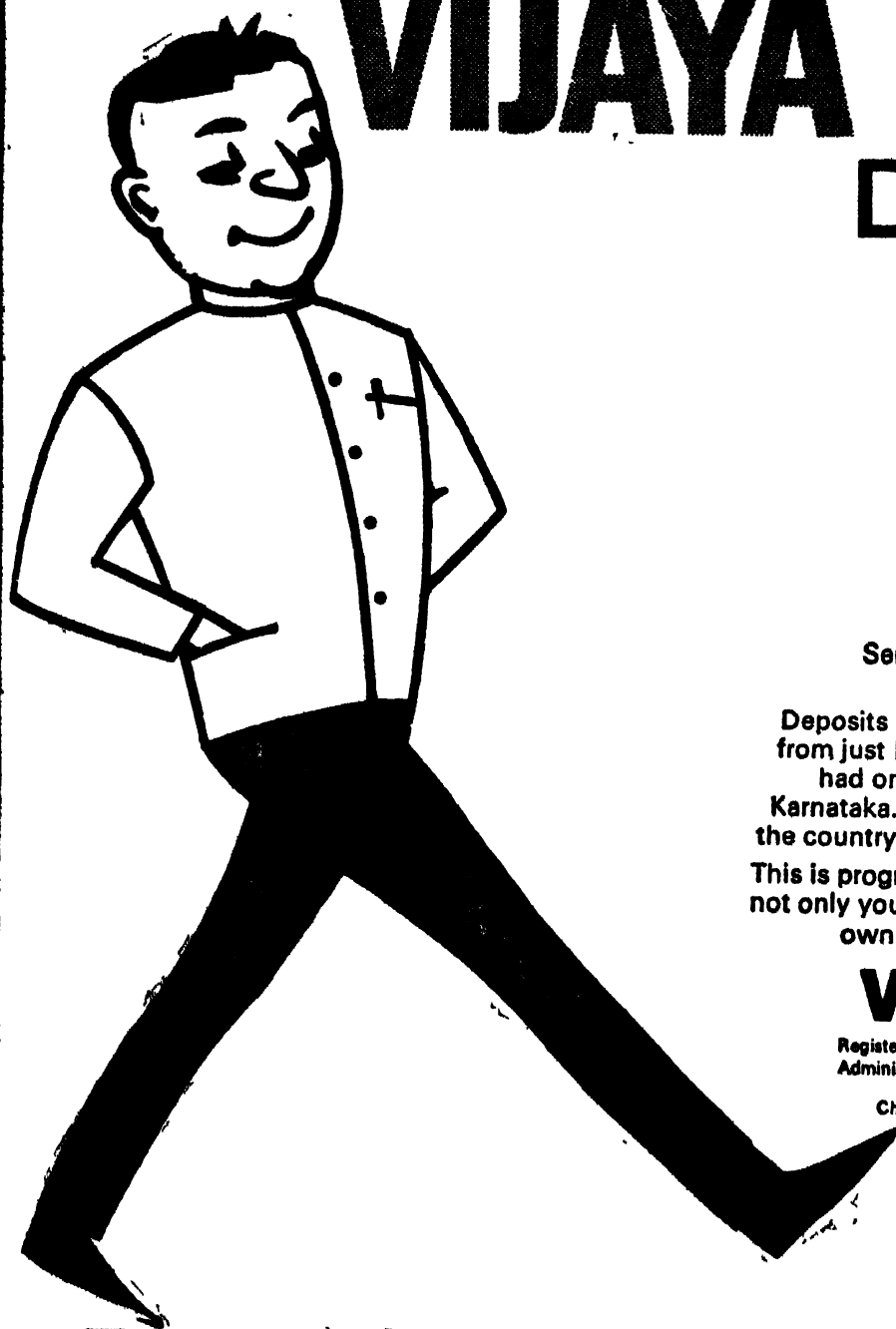
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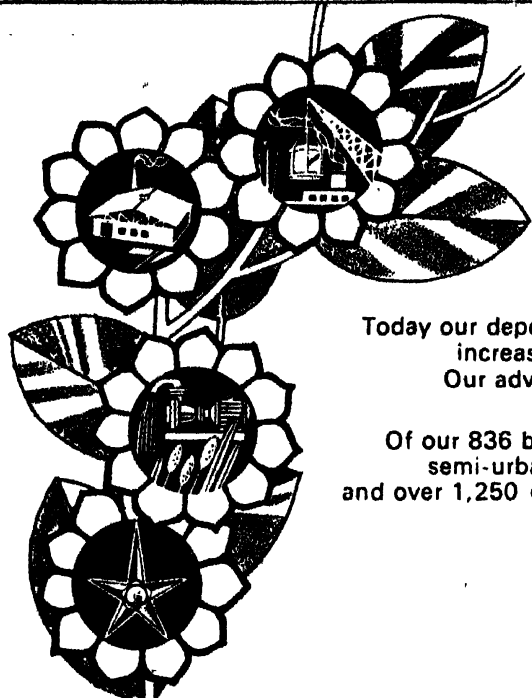
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sector investment may require some adjustment in current policies in the future.

Both the timing and the extent of needed adjustments will be influenced by the trend of export demand as well as by the state of the domestic food economy. However, as of now, it appears that in the background of acute inflationary pressures in the last two years, our response to such a situation should be to sustain business confidence in investment and export markets through more selective stimuli rather than a general reflation of demand.

#### Mobilising resources

In recent years, government have made impressive efforts to mobilise additional financial resources both by way of taxation and market borrowings. Unfortunately, a major proportion of the resources thus mobilised has been absorbed by the increase in non-developmental expenditure, particularly on pay and allowances. As a result, the public savings potential implicit in additional resource mobilisation efforts has not been realised. Since an increase in the saving rate is an essential condition for sustaining higher rates of investment, new strategies will have to be worked out to raise the rate of saving. On account of a steep increase in prices in the last two years, this is admittedly not going to be an easy task. Yet a fuller utilisation of the substantial excess capacity that now exists in the public sector alone would make a significant contribution to enlarging the pool of public sector savings. A more realistic pricing policy for public sector enterprises would also help to generate new savings. Similarly, adoption of more effective methods of tax administration designed to reduce tax evasion would not only help to raise public sector savings but also enhance the effectiveness of our tax system in reducing inequalities in income and wealth. Moreover, pursuit of flexible pricing policies for industrial products in general would not only help to

reduce the hold of black money on our economy but would also improve government revenues and public savings.

There are also considerable opportunities for diverting more of available savings for higher priority investments both in the public sector and in the private sector. Currently, the bulk of national savings originate in the household sector but only one-half thereof takes the form of financial assets whose deployment is generally subject to social control. It is likely that the rapid inflation of the last two years may have reduced the attractiveness of savings in the form of financial assets such as bank deposits. It is necessary to forestall such a development through a policy-mix which is conducive to increased savings in the form of approved financial assets. Ways and means have also to be found to ensure that the available savings in the corporate sector are ploughed back into expansion in high priority industries rather than being diverted to projects which are very low on the list of national priorities.

#### Population growth

In any viable strategy for raising the standard of living, one can hardly over-emphasise the importance of reducing the rate of population growth. The family planning programme has helped to create greater awareness of the population problem in the country. It has been estimated that currently about 15 per cent of couples of child bearing age practise family planning. The birth rate also shows a declining tendency. Nevertheless, overall progress has fallen considerably short of the initial expectations. It is therefore, necessary to reorient our family planning programme so as to ensure that it gains the required momentum.

The steep increase in the price of petroleum since January, 1974 represents a major structural change in international economic relations. It is obvious that in order to

ensure continued viability of India's balance of payments in the years to come, we must not only reduce our dependence on imported sources of energy but also greatly intensify our export promotion efforts. As a result of higher oil prices, we shall have to think in terms of a minimum increase of 10 per cent per annum in the export volume. The rapid increase in the value of our exports in the past two years was mostly due to higher prices and in terms of volume, the export growth of about four per cent per annum observed since 1968-69 does not indicate any major breakthrough.

In 1974-75, we had to draw heavily on the resources of the IMF to finance our payments gap. The IMF is expected to operate an expanded oil facility in 1975 and this should provide us with some more time for adjustment to the new realities. However, we must plan ahead for the days when there will

be no oil facility in the IMF and we will be called upon to start repaying to the IMF our existing debts. In this context, the task of export promotion assumes very great importance.

In the last fifteen years, India's economic structure has been greatly diversified. As such, we now have the capacity to achieve a major breakthrough in exports provided exporting, on balance, becomes as remunerative as, if not more attractive than, sales in the home market. The world trading environment in 1975 is not likely to be conducive to a major expansion of world trade. Nevertheless, since our share of world exports in manufactures is insignificant, given an active promotional policy, we should be in a position to raise our export earnings by a substantial amount.

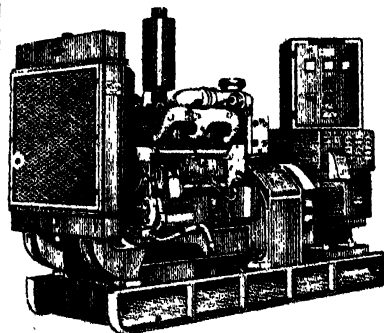
An regards the agricultural sector, a significant increase beyond the observed trend

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rate of growth of about three per cent per annum will require a major reorientation and strengthening of our agricultural programmes. At the same time, we must not fall a prey to the romantic illusion that there are readymade shortcuts to the modernisation of agriculture. In the short run, there are limits to an increase in the production of foodgrains. Moreover, one cannot lose sight of the inevitable fluctuations in output from year to year. As such, while adopting every possible measure to increase food production, the utmost emphasis must continue to be laid on strengthening the system of procurement and public distribution of foodgrains.

As will be obvious from the analysis contained in the earlier part of this Survey, there is an urgent need to revitalise the seed industry in the country. Arrangements for the production of breeder seeds need to be greatly expanded and for this purpose, it is necessary to have a fresh

look at the resources which are being earmarked for agricultural research. There must also be an augmentation of the capacity of the National Seeds Corporation and the other public sector agencies to cope with the increasing demand for quality seeds.

It is equally essential to step-up the rate of expansion of net area under irrigation, from about one million hectares per annum in the past five years, to about two million hectares per annum in the coming years. This would require that various major and medium irrigation works which are under construction or in advance stages of planning should not be starved of funds on account of over-run of costs. It will be necessary to resolve the interstate disputes over the distribution of river waters with greater speed and efficiency. A failure to settle these disputes involves a significant national loss of potential output which would have been made possible by a faster expansion of the area under irrigation. In addition, more effective arrange-

ments will have to be made for the speedy exploitation of vast groundwater resources in eastern and north-eastern India.

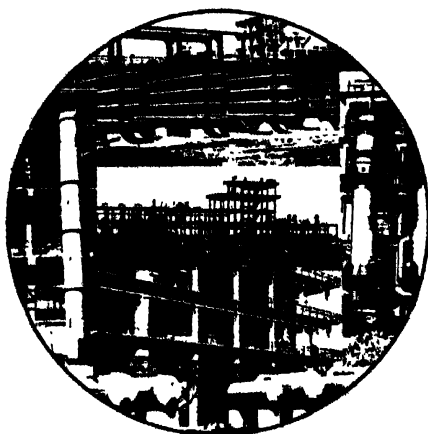
No less important is the task of making full use of the existing irrigation potential. The Command Area Development Programme contemplated in the draft fifth five-year Plan can make a significant contribution to increasing agricultural output, provided the administrative structure has the necessary degree of flexibility and adaptability. The programme has been slow in getting organised. It is necessary to impart a greater degree of momentum to this programme so as to ensure that practical answers to various organisational and technical problems are speedily found.

At a time when we spend large amounts of money on imported fertilisers, it is distressing to find that a sizeable proportion of domestic capacity goes unutilised. Inadequate supply of power has contributed to this state of affairs.

Nevertheless, there is evidence to suggest that power cuts cannot be an adequate explanation for our failure to make full use of available capacity. There have been visible gaps in the operation of a number of fertiliser units. Considering the heavy social costs of these gaps must be filled in the utmost speed. New fertiliser schemes which are now contemplated will also have to be speedily implemented. Any delay in their completion will have a serious adverse effect on our ability to increase fertiliser consumption by the end of the fifth Plan to about seven million tonnes.

To sum up India's economic situation in 1975-76 will have to reckon with a highly uncertain international environment. Nevertheless, the overall outlook will be greatly influenced by the trend of agricultural output. The assumption of an orderly process of growth with stability is, therefore, crucially dependent on our ability to impart a new element of dynamism to Indian agriculture.

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## COMPANY MEETING

# ASHOK LEYLAND LIMITED MADRAS-600057

Speech delivered by Mr S. Ranganathan, Chairman, Ashok Leyland Limited to the Shareholders at the Twentysixth Annual General Meeting of the company held on 3rd March 1975 at Ennore, Madras-600 057

ends,  
I have great pleasure in coming you to the 26th Annual General Meeting of the Company. The Director's Report and Audited Accounts for the year ended 30th September 1974 have been in your hands for some time now, with your permission, I will take them as read.

### General Economic Conditions

The year under review has been an extremely difficult one for the economy of our country. Due to inadequate rains, food production has declined, and industrial output has been seriously affected by shortages of materials, inadequate availability of power and to a lesser extent problems with transport bottlenecks. All these problems are however, by far outweighed by the problems caused as a result of the world crisis which has resulted in what can only be described as a phenomenal increase in the world prices of crude oil. This has been one of the main causes of the severe inflationary pressures witnessed in this country. To combat inflation, the Government took prompt action by introducing measures such as a control on the amount of credit available, compulsory Deposit Scheme, Dividend Restraint, and reductions in public expenditure. It naturally took time for these measures to take effect, but from October 1974, there are definite signs of a decline in the rate of inflation and the prices of quite a few items stabilised and some even started to fall.

The Government continues to take action to improve the general industrial climate. The main task now is to increase production, generally, and to

ensure that all existing resources are utilised to the maximum possible extent. Whilst doing this, a great deal of attention must be given to improving distribution. India is a vast sub-continent, and I suggest that we must do much more to strengthen and expand the transport industry. In the past scarcity conditions, and consequent spiralling of prices, have often arisen in different parts of the country more by mal-distribution, rather than low levels of production. In solving our problems the Government is quite rightly attaching great importance to the Transport Industry, in which Ashok Leyland plays a significant part. Everything possible must be done to make it possible for the industry to produce more vehicles, especially buses for mass transportation.

### Operating Results

Despite the economic problems in general and particularly the problem of obtaining power, your Company has had a record year from a production, sales and profits point of view. A total of 7295 vehicles were sold during the year, an increase of almost 40% on the previous year's levels. No less than 62% of our vehicle sales were to the defence forces, various branches of the Government and State Transport Undertakings. Sales of engines and spare parts were also at record levels. Despite the record sales, due to higher costs in all areas, and the impact of Corporate Tax, the net profit after taxation represents only 3% of sales (the same level as for 1973).

The current year has started

extremely well, but as you know severe power cuts have been imposed in Tamil Nadu much earlier in the year than we have come to expect and this makes it difficult to forecast our results for 1975. However, there is still a huge demand for our excellent products, and you may rest assured that all your employees will do everything humanly possible to ensure that the Company enjoys another successful year.

You will note that in the Annual Report we have considerably increased the amount of statistics and information available to you. I believe that as shareholders you are fully entitled to the maximum amount of information regarding your Company's achievements and progress. I would draw your attention in particular to the graphs which indicate our record level of production and more importantly, the great improvement in productivity.

A maiden attempt has been made to quantify the impact of inflation on various facets of our activities. Towards this purpose, the normal Profit and Loss Account has been compared with a Profit and Loss Account duly adjusted for the erosion of Purchasing Power of money, calculated according to accepted accounting norms. This is generally known as "Inflation Accounting" and its importance is becoming realised to a marked extent throughout the world.

I believe we are one of the first Companies in India to provide its shareholders with such a comparison. As you will notice, from the statement in the annual report the

"inflation adjusted profits" are considerably lower than the historical profits. The current method of computation for corporate taxation does not permit enough funds being available for replacements of assets vitally required. I earnestly appeal to the Government to give due consideration to this aspect and devise suitable future taxation policies which will leave some liquidity in the hands of Companies. In this context, I may also mention that the present practice of determining the borrowing potential with reference to historical asset values is too restrictive. Such changes as Government may find it possible to meet these difficulties will contribute effectively to maintain higher levels of production.

### Dividend

Your Directors have decided to recommend payment of a dividend, for the year, of 12% the maximum permissible under the provisions of the Companies Temporary Restriction on Dividends Act, 1974. But for these restrictions, the Directors would have seriously considered payment of a somewhat higher dividend, more commensurate with the record results achieved. These restrictions have, however, proved a blessing by compelling us to do, what is prudent and vital to transfer a significant amount to reserves which is necessary to finance the major expansion programme your Company has undertaken.

### Selling Prices

The Government has tangibly shown its confidence in this private sector industry by permitting it to discipline itself, allowing the companies to vary its selling prices as necessary provided profits are kept within certain stipulated parameters. However, whilst whole-heartedly welcoming these moves, my fear is that the scheme under operation, as it is, now does not really encourage and reward the two vital necessities for industries in the country—higher efficiency and production. I

would earnestly request the Government to introduce measures which will correct this position, even if on larger considerations the quantum of profits distributed to the shareholders is not increased.

I firmly believe the industry will justify the faith and confidence placed in it, by the Ministry of Industry and Civil Supplies, and your Company will as always exercise self restraint. As you will be aware, we were the first manufacturers to have passed on to our customers the benefits of our greater efficiency and productivity, in the most tangible manner possible, by twice reducing our prices in November 1974 and January 1975.

#### Expansion

Your company recognises the paramount need for the production of buses and trucks to be increased as quickly as possible, and is therefore proceeding as fast as possible with the implementation of our programme to expand production facilities for both "Comets" and engines. We are confident that any current stagnation in the market is only of a temporary nature; the technical excellence and distinct customer preference for our products will ensure that we will continue to be able to sell all we can produce.

#### Exports

Your Directors are very happy to report that in the past year very determined and positive action has been taken to increase our levels of our exports. We have obtained orders from countries as far afield as Afghanistan, Jamaica, Nigeria, Oman, the Phillipines, Sri Lanka and Trinidad. I must mention here our winning the largest order ever for the Indian automotive Industry—500 complete buses for Zaire. Our target for the fiscal year 1975/76 is to export 20% of our output—no other commercial vehicle manufacturer has ever achieved such a level. I must record the very considerable help we have received in the export

field from our collaborators, the British Leyland Motor Corporation, who have a world wide network of agents and distributors. I would also like to express our gratitude to the many Ministries of Government who have always given us very prompt and tangible assistance and every possible encouragement.

#### Management

You will all, I am sure, share my deep regret at the news that Mr. AEL Collins passed away in England. As the first Managing Director of Ashok Leyland, and later as its Deputy Chairman, his contributions to the Company's progress were invaluable. His pioneering efforts, great vision and zeal played an enormous part in the development of the Transport Industry in India. Mr. Collins always combined the best of Indian culture and western traditions, and endeared himself to one and all by his affable manners and human approach. On your behalf and on behalf of the Management and employees of the Company, we wish to place on record our deep appreciation and gratitude for all that Mr. Collins did for our nation, the automotive industry, in general, and our Company in particular, and wish to convey our heart-felt condolences to his bereaved family.

Messrs. W.H. Boardman and J.C. Watson resigned their Directorships from the Board, and I wish to place on record our appreciation of their interest in Ashok Leyland and wish them well in the future. In the casual vacancy created by the resignation of Mr. J. C. Watson, Mr. J. M. Simon, a Director of the British Leyland Motor Corporation, was appointed to your Board.

You will also be happy to know that Mr. N. Subrahmanyam, I.C.S. (Retd.) has consented to join your Board as an additional Director. His term of office expires at this meeting and subject to your agreement, he will be appointed

a Director of your Company.

#### Acknowledgement

I would like to record our gratitude to our collaborators, the British Leyland Motor Corporation, for their continued support and active assistance in the development of the Company.

I would like to take this opportunity to convey our sincere thanks to the Central and State Governments for their encouragement and support, and also to the Financial Institutions and our Bankers for the support they have continued to give us in our day-to-day operations.

You will, I am sure, wish to join me in expressing our great appreciation of the enthusiasm and loyalty of all employees and the able administration of the management team, which have contributed

to the gratifying results we have been able to achieve during the year under review.

I would be failing in my duty if I did not record an enormous debt to all the State Governments who did much to make our record year possible by supplying electricity to us.

I must not forget to express the gratitude we owe to our Dealers and suppliers for their continued support, which I am confident they will continue to give us.

Finally, on behalf of the Board of Directors and myself I would like to convey our sincere thanks to you, Shareholders, for all the confidence that you have reposed in us which has been our mainstay in the management of the Company.

Note: This does not purport to be a record of the proceedings of the Annual General Meeting.

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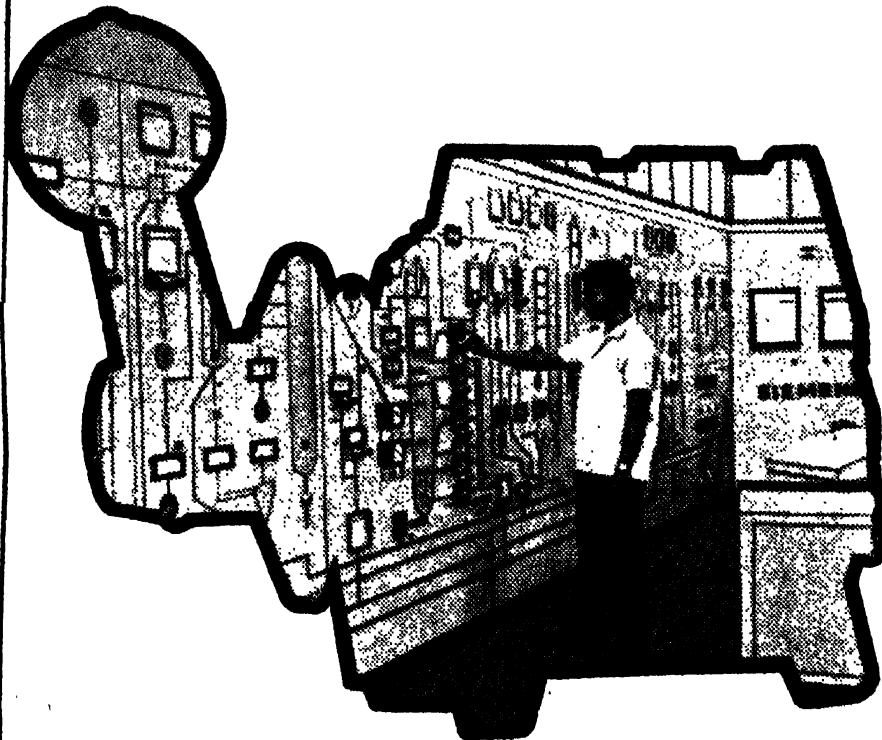
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MARCH 14, 1975

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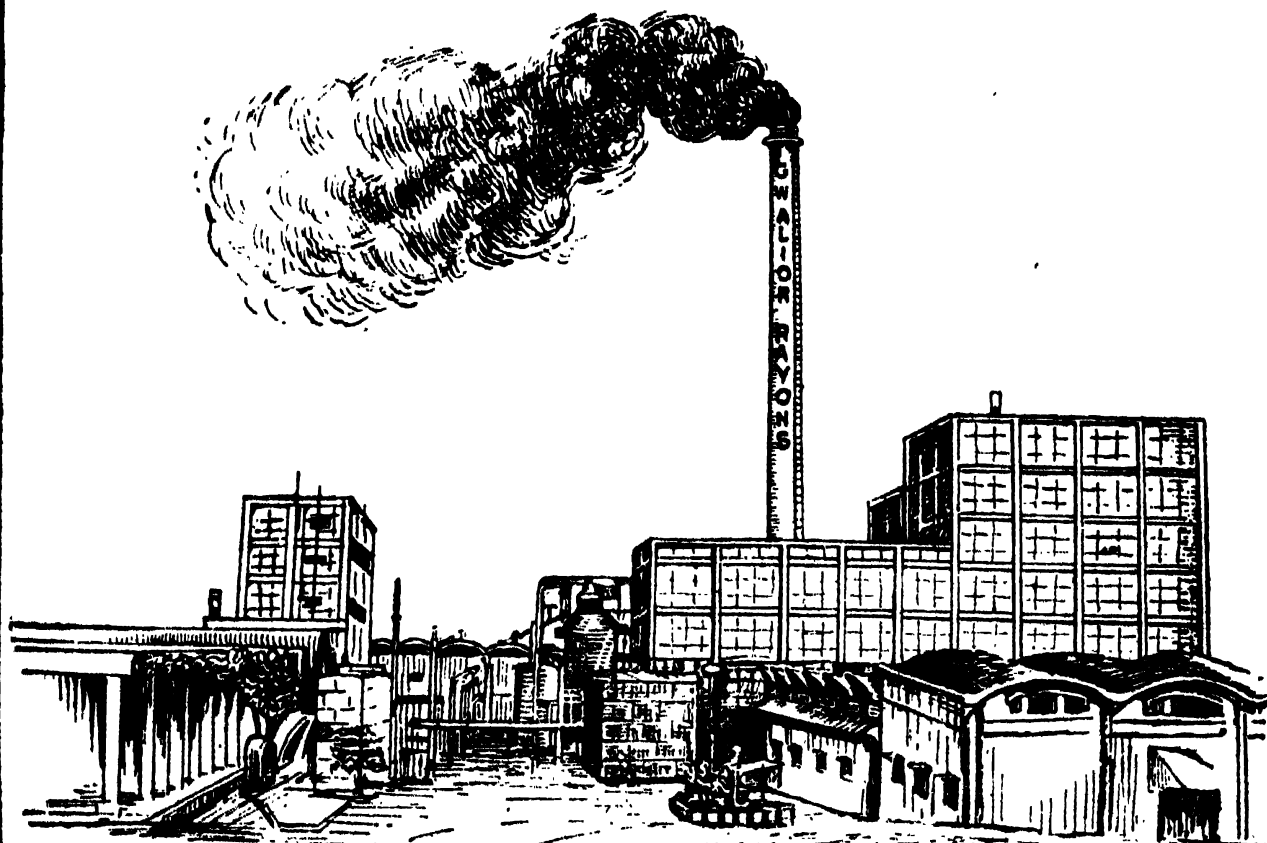
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# Mass or moss-grown?

—Editor

and that it was all-India in character. These facts, surely, were fully driven home on the occasion. I confess that I had not attended a mass political gathering for some 28 years until I went to and sat on the Boat Club grounds on March 6. I had of course been present at some of the Red Fort gatherings which Jawaharlal Nehru used to address on Independence Day. But Nehru was prime minister and those occasions were more ceremonial and official than political. As for the election meetings which political leaders, big or small, national or state, were holding during various election campaigns, I had been totally disinterested in them but, on March 6 I felt that, for the first time since the era of a living Gandhi in our politics, there was some mass awakening which was trying to express itself, however inadequately, through a man in our public life who has no official patronage to dispense but has more than a narrow institutional following to inspire and lead. To me, therefore, it did not matter at all whether only 100,000 people took part in that march, or ten times that number. It was sufficient for me that a great number of my fellow-citizens had gathered there, conscious that a government, to which the electorate had twice given a massive mandate within the last five years, had somehow failed the nation and feeling strongly, even if vaguely, that this government should mend its ways.

All this does not mean, of course, that I, personally, am giving up my chosen position of an independent and critical observer of or commentator on public issues or national affairs and it is of course just not true that this journal is about to become another *Everyman's* but I am convinced that it is not just enough for this country to go on being governed the way it is, or for the prime minister or her party to be content to carry on business as usual. A general election is no doubt due well within the next twelve months, but politicians have become cynical about the ballot box as it is being used, while the people at large have very nearly lost faith in it. This is because factionalism in a larger sense — if it could be paradoxically so phrased — has given to the pursuit of power a priority which it cannot and should not have in a society which wishes or seeks to nurse an effective, democratic political system or way of life.

Unfortunately, consensus politics, through no fault of the concept itself, has acquired a reputation in our country for lack of purpose, direction or seriousness. However, given the gross paramountcy which ego-centred politics seems to have acquired over our national affairs, it has clearly become necessary for those who care for the democratic future of this country to compel political parties and politicians to think and act together along nationally accepted directions. This is why, when even such a normally confused junior-level politician as Mr Mohan Dharia stands up in parliament and demands that his party and its leader, the prime minister, should enter into a dialogue with Mr Jayaprakash Narayan as well as leaders of other political parties represented in the legislatures, the basic issues he has raised cannot be driven out of public debate merely by Mrs Gandhi dismissing him from her council of ministers. Mr Dharia has affirmed with obvious sincerity that it just does not matter to him that he ceases to be a minister. There is more than a personal angle to this because, if things are not put right in the nation, the council of ministers itself will cease to matter much for the people of this country.

The prime minister ought to realize that this nation, even after nearly three decades of independence, is just not able to find itself because its political processes have been perverted to prevent the plurality of feeling or thinking in the country from finding just expression, whether in the composition of the legislatures or the councils of the government. It would be tragic indeed if the inchoate but nevertheless real democratic

MR JAYAPRAKASH Narayan was not playing a game of numbers when he led what he called "the people's march to parliament" on March 6 in New Delhi. He, obviously, wanted to make two points: that his movement had a mass content

## eastern ECONOMIST

MARCH 14, 1975

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aspirations of our people are to be continued to be stifled by the miasma of succeeding generations of the personality cult, or the manipulations of the electoral process to the permanent advantage of the 'haves' of the political order. The concentration of political wealth and incomes, so to speak, has indeed become the foremost threat to the public interest even in this country where mass poverty should ordinarily ordain priority to the diminution of economic disparities. There are of course undoubtedly large numbers of citizens who would respect Mr Jagjivan Ram or Mr Y.B. Chavan when he affirms that he could see no good coming to the country through the disruption or destruction of the nation's largest single political party. But they or other senior colleagues of the prime minister, and even the prime minister herself, should surely agree that the nation cannot indefinitely acquiesce in the monopolistic use by the Congress party of the latter's historic capital.

Right now there is talk of the pharmaceutical industry being regulated in the use of brand names. This is a technical

issue on which there could be considerable discussion, but there is nothing technical about the fact that the country's democratic progress has been greatly obstructed by the present ruling party's indefinite and indiscriminate indulgence in the exploitation of the "Congress" brand name. Gandhiji, almost with his last breath, recommended that the Indian National Congress of the freedom struggle should disband itself so that the next generation of political leaders might not trade in its name without commitment to its moral or ideological essence. This in fact is also what Mr Jayaprakash Narayan is asking now and his plea has become all the more urgent because what Gandhiji foresaw might happen is in fact the case today. It was not for nothing that, when the ruling party split in 1969, the quarrel was more about the party flag and the election symbol than about where the country was going or should go. "Whither India?" was political rhetoric even as Nehru posed it. And it has remained rhetoric since. Meanwhile the present government's mandate has become less mass than moss-grown.

easily Rs 250 crores in 1974 and some part of the decline in the growth rate of deposits of banks in the past year can be ascribed to the competition from non-banking companies for a share of available resources. The amounts retained by industrial units as a result of the curb on payments of dividends out of disposable profits have also been helpful as industrial units could raise upto 50 per cent additionally deposits and unsecured loans for filling gaps in short-term and long term finance.

In view of the complaints from banks that there was a large diversion of funds to be invested on a more remunerative basis with non-banking companies and the apprehensions expressed by depositors about the safety of their funds with some industrial units, the government has decided to reduce the aggregate of deposits and unsecured loans to 40 per cent for 50 per cent of paid-up capital and free reserves. The total of all deposits in 1971 was estimated at Rs 691 crores and this could have risen easily to Rs 1200 crores by the end of 1974. This would mean that there will have to be a return of at least Rs 240 crores to the public being 20 per cent of deposits and unsecured loans or 1 per cent of paid-up capital and free reserves of the non-banking companies involved. As the refunds have to be effective before the end of 1974 the plans of many non-banking companies have been seriously upset and it is now being examined how fresh deposits should be accepted and renewals of maturing deposits effected.

The new regulations for accepting fresh deposits had to be welcomed as the interests of depositors have to be more effectively safeguarded. Numerous failures to pay interest charges and return also deposits after maturity, when they were not renewed, have been reported and it has been represented to the Reserve Bank and the government that they should assume some manner of responsibility for guaranteeing the safety of these deposits. The authorities are understandably unwilling to take on risks in this regard as it is not easy to formulate an insurance scheme and prescribe norms for funds, which are

## Deposits with non-banking companies

THE RECENT announcement by the central government relating to a reduction in the percentage of deposits and unsecured loans that can be accepted from the public and shareholders, as a proportion of paid-up capital and free reserves, to 40 per cent from 50 per cent and an indication by the union finance minister, Mr C. Subramaniam, that the banking operations of non-banking companies would be suitably regulated, after the expert committee's findings had been received, have brought to the fore the question of how resources required by non-banking companies for all purposes should be mobilised. With the increase in capital costs and inflated working capital requirements due to rising prices even sound industrial units have been compelled to raise additional resources in various forms. In recent months deposits and

unsecured loans have been accepted from investing public and shareholders to the permissible extent fully and fairly high rates of interest have been paid on deposits and unsecured loans. In view of the high rates of interest charged by lending institutions on advances to their constituents, industrial units have considered it desirable to raise their own funds on an unsecured basis without being obliged to answer all manner of questions from banks and pay interest on these amounts at rates which were much higher than those offered by the scheduled commercial banks for their deposits but which were lower than those charged by banks on short-term credit.

The squeeze in the money market is so severe and the gap in resources of industrial units so wide, that many establishments have been even accepting deposits and unsecured loans for periods up to five years with increasing interest rates for longer periods. There is no precise estimate of the amount accepted by non-banking companies from the public in this manner. It can however be

essentially unsecured, which will ensure their safety. The expert committee will surely be examining the manner in which additional resources have been raised and the method of disposition of these resources. There may also be some recommendations about how the acceptance of these deposits should be regulated and the safety of these funds ensured.

What precisely is the main difficulty experienced by non-banking companies? The curbs imposed by the Reserve Bank on the grant of additional credit to industrial units at a time when rising prices have created problems in respect of working capital needs have compelled the institutions to borrow from outside sources. It has not been possible for many units to assess their new needs in the light of recent developments and this difficulty is not in any sense peculiar to the industrial producers in this country. In Britain and elsewhere even giants have been on the verge of bankruptcy and the British government has been obliged to bail them out with the grant of special loans.

A crisis of this magnitude has not however arisen in this country. But a stage has been reached where every established industrial unit has to review its financial position and formulate plans for mobilising fresh resources. Some industrial units have already decided to issue convertible bonds at 10 per cent and there has been quite a good response from the share-holders and the public for the issues of these bonds which carry an interest rate of 10-10½ per cent and contain also options for the bonds to be converted into equity shares on attractive terms. As fresh deposits and unsecured loans cannot be accepted by industrial units in the current year for amounts which will result in the total of 1974 to be exceeded, many industrial units will have to think of issuing unsecured bonds or convertible unsecured bonds. There may even be difficulties by the middle of this year when maturing deposits have to be returned before they can be accepted again in the light of fresh additions to free reserves. The reduction in the overall ratio to 40 from 50 per cent will virtually mean the denial of one year's growth in deposits on unsecured loans to the

industrial units and in individual cases there will be serious problems in regard to the return of deposits and unsecured loans.

It has become imperative to attempt an overall assessment of the methods adopted for raising long term credit and securing short-term finance. In view of the varying profitability of working of different industries and the increasing tendency to adopt a higher debt equity ratio, it has not been possible for many industrial units to find even the margin amounts required for working capital purposes out of owned funds and deposits and unsecured loans have even provided part of these margins payable to banks. There are even some instances where overruns in capital expenditure over the previous estimates have had to be met by accepting deposits from the public. The question now is how to avoid an undue increase in total indebtedness and in what

manner long-term capital needs can be met. There will obviously have to be a larger equity base and a better understanding of what should be the contribution of non-banking companies to their working capital requirements out of owned funds. Pending a satisfactory solution to these ticklish problems it will not be wise to impose unimaginative credit curbs or deny additional funds to industrial units for meeting over-runs. The term lending institutions and banks have to formulate definite procedures in consultations with the government and the Reserve Bank for granting long-term loans and short-term credit. There will also have to be a revival of the capital market with the offer of required incentives, and improvement in the profitability of working of industrial units. Fitful decisions in the absence of any integrated approach to outstanding issues can do more harm than good.

## Prospects in jute

THOUGH THE 45-day-old jute strike has ended, it is too much to hope that labour-management relations in the industry will improve steadily in the coming months, leading to higher production and exports. In fact, there seems to be every likelihood of industrial relations to continue to be under severe strain in view of the defeat and disappointment suffered by the trade unions. The strike is estimated to have caused a loss of between Rs 800 and Rs 1000 per worker while the gains have been meagre. The industry has agreed to pay a lumpsum of Rs 120 to each worker who had worked for at least 100 days in 1974, to defray special expenses, to waive the recovery of the advance of Rs 56 paid in 1974, and not to resort to victimisation. The trade unions who had sponsored the strike had hoped that because of their united approach, persistent pressure, and tacit moral support from the central and the state governments, it would be possible for them to wrest substantial concessions from the industry. But the management rightly decided to stand

firm, not only because of the industry's difficult financial position but also because of its unhappy experience with the unions who had shown scant regard for the sanctity of agreements and who were trying to exploit labour, for political purposes.

It is necessary to recall that the tripartite agreement of 1972 conferred on workers immediate additional benefits of a total value of Rs 22 crores which rose to Rs 41 crores a year in February 1974. This agreement was to remain in force upto the end of December 1975. But in January 1974 the trade unions wanted to unsettle the 1972 agreement and they organised another strike which lasted for about a month. This was settled by an agreement which substantially benefited the workers. For the first time, time-rated workers secured a time-scale of pay while the wages of piece-rated workers also went up. Nevertheless, this agreement also did not help to ensure harmony in industrial relations. The fact that the jute industry had lost heavily in production and exports on account of the prolonged and acute power shortage did not deter the unions from paralysing the industry by launching another strike in January this year demanding higher

bonus and cost of living allowances.

The political motivation of the sponsors will be evident from the demand for nationalisation of the mills. It is significant to note that out of a total of 142 work-stoppages involving 1,260,331 man-days in 1973, only 11 with a loss of 651,163 man-days were directly related to labour management in mills. Besides, go-slow tactics and organised indiscipline have been hindering productivity. In fact, some trade unions have not concealed their intention and determination to harass the management. The INTUC, AITUC, and HMS said in a joint statement issued on February 22 this year, that the withdrawal of the strike is "only a truce" and they called on the workers "to get ready for a fierce struggle ahead".

The strike in the current year is estimated to have resulted in a loss in production of 120,000 tonnes of jute goods valued at nearly Rs 45 crores. The loss in terms of foreign exchange was about Rs 27 crores. It is argued that the industry's profitability is not likely to be affected because of the increase in prices that has taken place in recent weeks. For instance, the price of hessian has gone up to Rs 5010 a tonne and of sacking to Rs 4075 a tonne, an increase of Rs 570 and Rs 325 respectively over the pre-strike period. But the costs of production have also increased and are expected to go up further. Besides, in the case of carpet backing while the fixed registration price is Rs 5200 a tonne, the cost of manufacture works to about Rs 5840. The Indian Jute Mills Association said in last December that the prices of stores and accessories had increased by nearly 80 per cent and the cost of power by 30 per cent and that the per-tonne average conversion cost of jute goods had shot up by Rs 600 during the preceding 30 months. The Association added that the increase would be higher if the impact on cost of power cuts were taken into account. The demand for Indian jute goods has recently shown a declining trend in many parts of the world specially in the USA. Between 1968 and 1973 the share of jute in the sphere of carpet backing fell from 81 per cent to

34 per cent for primary backing and from 71 per cent to 64 per cent for secondary backing. Carpet backing exports dropped from 225,000 tonnes in 1971 to 140,000 tonnes in 1974 and the outlook is considered to be rather discouraging. The government of India has recently sent a delegation to the USA consisting of representatives of the ministry of Commerce and the jute industry in order to study the market situation and explore the prospect for increasing exports. But even if the delegation is able to find larger scope for our jute goods, will the industry be able to offer them at competitive prices without causing frequent disruption in supplies?

The power situation which had caused immense harm to the jute industry until August last year once again threatens to deteriorate. Extensive and unscheduled load shedding had resulted in a loss in production to the jute industry of the order of Rs 18 crores in the first quarter of 1974 in addition to the loss of Rs 40 crores in the preceding two years. The scheme of power rationing which was introduced in August 1974 provided some relief but with the onset of the summer season, the availability of power has become difficult and it is feared that industries will have to face in the coming months unscheduled load shedding. The government of West Bengal should therefore give special attention

to ensure that the jute industry is not once again subjected to the kind of severe power cuts as were imposed until recently.

The government of India's policy towards the jute industry has to be more pragmatic if it is to play its part effectively in the country's economy. In the recent strike New Delhi seemed almost wholly unconcerned about what was happening to the jute industry's production and exports and left the matter to the state government to solve. Prof. Chattopadhyaya, the union Commerce minister, often castigates the jute industrialists, calling them "irresponsible" and being unsympathetic to the interests of workers and growers. But neither the Commerce minister nor his other ministerial colleagues have cared to condemn the disruptionist tactics of the trade unions and their deliberate attempts to create chaos in this vital industry. It is not properly realised that the trade unions' methods affect adversely not only production and exports but also the interests of cultivators. As the IJMA said in last December, "It is the policy of non-stop agitation on the part of the central trade unions, which profess to champion the cause of jute growers by demanding a minimum raw jute price of Rs 100 a maund, that is largely responsible for the fibre prices sagging. For years now, the unions have made it a regular practice of threatening an in-

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## *Eastern Economist 30 Years Ago*

MAR. 16, 1945

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We cannot but regard the combined attack on the Planning Department and the refusal to vote supplies thereto by the major political parties in the Legislative Assembly as ill-advised and unfortunate. There may be sufficient political reasons for collaboration and joint plan of action; we are not concerned with them. But political strategy, like military strategy, must aim at crippling the opponent at vulnerable points. Instead of doing so, the Opposition joined hands to refuse supplies to the one department on which the country has been building its hopes for the future, thereby undermining its utility and destroying its confidence. The fact that, despite rejection of the demand for the Planning Department, the supply will be restored by the certificate of the Viceroy can afford no consolation to the public because

the Opposition has failed to make a distinction between the political aspect of the fight and the economic urgency of the country's economy.

That sense of urgency has been expressed by the Planning Member in the following words: "The war is coming to an end. Millions of people will soon be unemployed. Two millions of soldiers will be demobilized; the purchasing power which has been created by the demands for war industries will come to an end. We have to plan the transition from war to peace. Every country in the world is far in advance of what we have done with regard to the preparation of post-war plans. In the meantime until our unfortunate political disputes and difficulties are settled, are we to stand by and do nothing and see the economy of this country collapse, as it is bound to do if nothing is done?"

industrywide labour strike right in the middle of the jute marketing season and translating the threat into action when the arrivals of the fibre are at the peak."

The London *Economist* referred, in issue of February 1, to "trade

union thuggery which has forced factories to close or operate hopelessly uneconomically". The journal made these remarks while commenting on the economic conditions in Bangladesh. But this is a danger against which vigilance is necessary in our country as well.

payment. Hindustan Aeronautics also has commenced the manufacture of fixed wing agricultural aircraft with financial assistance from the Ministry of Agriculture. As a result of these measures aerial spraying operations covered nearly 6.2 million hectares during 1973-74 against a target of five million hectares.

## Demand for pesticides

THE SET-BACK to the programme of utilisation of pesticides in agriculture was largely accounted by the droughts in 1965-66, 1966-67 and 1972-73. As against the targeted area of 72 million hectares under plant protection by 1972-73, only 2 million hectares received this benefit. The conditions improved during 1973-74 so that the area covered by pesticides increased to 63 million hectares. This early 20 per cent rise in the use of pesticides in one year has encouraged the Pesticides Association of India to revise its estimates of demand for 1975-76 to 9,750 tonnes of pesticides, a figure substantially higher than 56,500 tonnes proposed by the task force appointed by the Planning Commission.

The task force had estimated the requirements of pesticides by the end of the fifth Plan at around 77,000 tonnes on the basis of two factors. In the first instance, the area under plant protection was expected to reach 100 million hectares by 1978-79 as against 63 million hectares by 1973-74. Secondly, the utilisation of pesticides was expected to increase in case of certain crops such as rice, pulses and oilseeds, where the inputs have been comparatively low till recently. It was felt that the loss of crops due to pests and diseases, which had been reckoned at 15 to 20 per cent in traditional agriculture, exceeded 50 per cent under intensive cultivation programme. In other words, the introduction of high-yielding varieties of foodgrains and the implementation of the programmes for commercial crops would make the use of pesticides imperative.

The targets and actual achievements of the components of the area covered

under plant protection during 1973-74, reveal the precise nature of shortfalls in the use of pesticides. It was targeted that general pest control and intensive treatment would cover 39.50 million hectares. Actually the programme exceeded the target to cover an area of 41 million hectares. There was, however, a substantial shortfall in the case of seed treatment area which covered only 11 million hectares as against a target of 24 million hectares. Similarly a shortfall was noticed in the case of rodent control too, where only six million hectares could be covered as against a target of 14 million hectares. These shortfalls were all the more depressing in view of the fact that the pesticides required for these operations were available in sufficient quantities from indigenous sources.

A significant step forward in the field of pesticides has been the extension of prophylactic measures, both by aerial and ground spraying operations, for pests appearing in endemic form. The union government has been expanding its surveillance and forecasting services which was limited to some extent due to the shortage of aircraft. Arrangements have been made for further import of fixed wing aircraft and helicopters under a credit agreement with the International Development Association. In addition, private operators have been permitted to acquire fixed wing aircraft from Yugoslavia under the trade plan against rupee

The surveillance service proved useful during the last kharif, when the sugarcane belt in entire north India was plagued by epidemic outbreak of the *Pyrillia* pest. Timely plant protection measures averted serious loss in sugarcane production. Similarly epidemics of other pests and diseases were reported, such as virtual destruction of rice crop by brown plant hopper in the Kutnad area of Kerala, scab disease on apple in Kashmir valley, rust disease on wheat in Punjab and midge pests on jowar in Maharashtra. These and many other instances call for a further strengthening of the pest surveillance service in the country.

A recent development in the pesticides industry has been the indiscriminate proliferation of formulation units which were responsible for the sale of sub-standard and adulterated products. From 160 units in 1970-71, the number has increased to more than 600. As most of the units are in the small scale sector, it is rather hard to keep track of the incidents of supplies of sub-standard materials. In his annual address, Mr. G. C. Shroff, President, Pesticides Association of India, cited the case of a big formulator supplying sub-standard material and expected the government to take stern action. Although the registration committee set up under the Insecticides Act scrutinized insecticides for the grant of certificates of registration, the state government should take some stern measures to enforce quality of final products.

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# Containing non-Plan expenditure

A correspondent

THE BUDGET estimates for 1975-76 presented to Parliament by Mr C. Subramaniam, union Finance minister, clearly show that the central government has utilised fully the massive resources at its disposal for meeting a higher level of non-Plan and Plan expenditure and it has been considered necessary to impose heavy taxation again for boosting further governmental expenditure. While there may be some relief over the indication that the uncovered overall deficit for 1974-75 in the revised estimates will be only Rs 295 crores, excluding the temporary creation of credit of Rs 330 crores for financing bunching imports of foodgrains and fertilisers, the fact remains that the increase in the overall deficit by Rs 169 crores as compared to the budget estimate for 1974-75 has taken place mainly due to larger non-Plan expenditure.

What exactly would have been the outcome if there had been no buoyancy in tax revenues and an increase in capital receipts is difficult to say. The main benefit to the exchequer was from customs revenue which jumped to Rs 1,300 crores from Rs 936 crores and in income and corporation taxes to Rs 1460 crores from Rs 1,370 crores. Aggregate tax revenues in 1974-75 (revised) were as much as Rs 6127 crores against Rs 5,497 crores before providing for states' share of revenues of Rs 1,224 crores against Rs 1,197 crores.

### non-tax revenue

There was also an improvement in non-tax revenue and aggregate revenue receipts jumped to Rs 6484 crores from Rs 5,639 crores after meeting the states' share of taxes. The surplus on revenue account however improved only to Rs 625 crores from Rs 232 crores indicating that a good part of the additional revenues was eaten up by higher expenditure on food subsidies, Defence services and payment of additional dearness allowances apart from an increase in the cost of administration.

The only satisfaction is that actual Plan outlay in the current year in finan-

cial terms will be better at Rs 2129 crores against Rs 2055 crores excluding extra-budgetary resources. An attempt has been made to increase the outlays on power projects, agriculture and on the development of collieries. Industrial projects too have been responsible for larger expenditure though it is not known to what extent physical targets will be achieved. As a result of the bulge in capital expenditure and the heavy accumulation of stock of fertilisers, the deficit in the capital budget has swelled to Rs 1250 crores from Rs 358 crores resulting in an overall deficit of Rs 625 crores against Rs 126 crores. The actual deficit will be much less as it is unlikely that the allocations under various heads would have been fully utilised.

### restraint was possible

With the total of budgetary resources on revenue and capital accounts exceeding comfortably Rs 10,000-crore mark in 1975-76 on the basis of the massive tax effort of 1974-75, Mr C. Subramaniam could have refrained from imposing additional taxation of Rs 288 crores. Even if a higher Plan outlay of Rs 2558 crores against Rs 2,129 crores in 1974-75 (revised) had to be contemplated and assistance to states were also to be raised to Rs 1054 crores from Rs 911 crores, the required resources could be found through larger open market borrowing in new loans. It could also be expected that the surpluses of public sector undertakings would improve while tax revenues have been underestimated.

With the new levies in the interim budget of July last year being effective throughout 1975-76 and expectations of a higher level of industrial production, the anticipated additional income of Rs 239 crores for the centre's share in respect of additional taxes could be easily realised. As there is also scope for getting additionally Rs 150 crores in the capital budget, there was no justification for the new massive effort to impose heavy indirect taxes, which may have a discourag-

ing effect on consumption. The government is probably under the impression that it will be in a position to export larger quantities of sugar, cement and other items if there is a decline in internal consumption.

### high excise duty

Alternatively, there will be an increase in revenues from excise duties if there is absorption of larger quantities of sugar and cement in the home market. But the fact should not be overlooked that sugar output will constitute an all-time record at 4.5 million tonnes in the current crushing season and it will require a Herculean effort to raise exports to a million tonnes. Even then, there will be ample availability for internal consumption and it is genuinely apprehended by sugar producers that there will be a repetition of the experience of 1970-71 when sugar production slumped by over one million tonnes from the previous record of 1969-70 following decontrol and a heavy accumulation of stocks.

The net effect of an ad valorem excise duty of 45 per cent on a tariff value which is in excess of ruling open market price will seriously reduce profit margins and compel sugar mills to work at a loss. The textile industry too may have a similar experience while cement producers are wondering why the government is fighting shy of giving them a reasonable factory price when a prohibitive duty is being imposed on their output. The government should have taken note of the rigorous effects of heavy indirect taxes before proceeding to raise freshly Rs 200 crores mainly through higher and new excise duties.

The borrowing programme for the next year could have been conceived more ambitiously as it is likely that the banking system will be extending larger support to the new loans and there will also be bigger additions to resources of the Life Insurance Corporation and provident funds. Net borrowing however has been assessed at only Rs 324.88 crores against 494.80 crores, in 1974-75. Gross borrow-

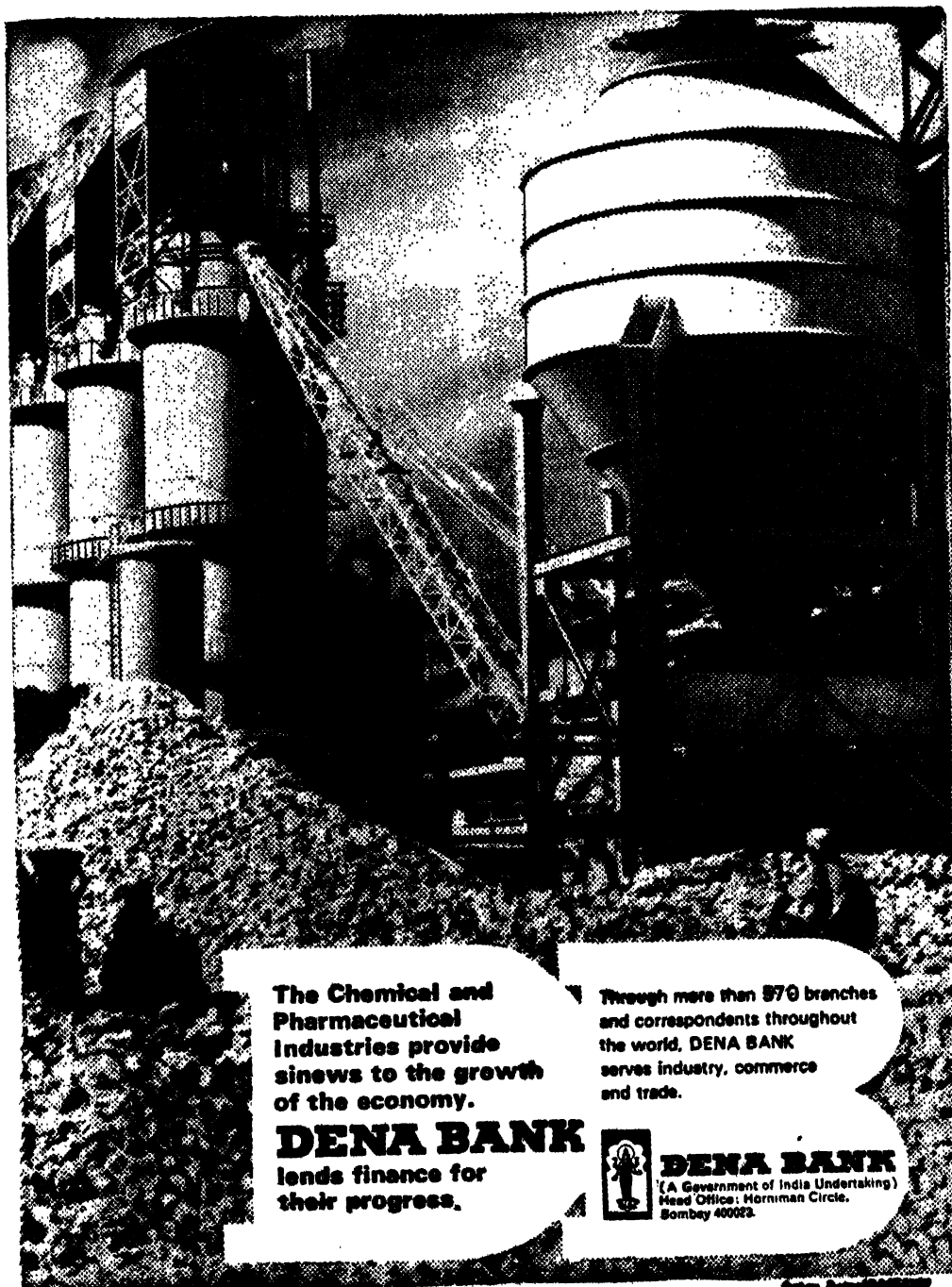


s naturally lower at Rs 532 crores against Rs 696.44 crores. There is only one maturing loan—4½ per cent 1975—outstanding to the extent of Rs 207.12 crores which is due for repayment on July 26, 1975. The government can hope to raise comfortably Rs 500 crores in 1975-76 even after repaying the maturing loan. It has probably decided to set its sights lower in order to enable the state governments to raise large amounts or have a cushion for itself for meeting any unexpec-

ted increase in expenditure.

There will certainly be an increase in dearness allowances payable to government employees as a result of the negotiations for effecting adjustments in emoluments for price rises after the increase in the cost of living from 272 up to which level dearness allowances had been granted. There may also have to be larger Defence expenditure. But with no credit taken for US assistance, under-estimation of tax revenues and scope for larger capi-

tal receipts, the Finance minister had no excuse for resorting to additional taxation. Indeed, he has a special responsibility for ensuring that the huge resources at his disposal are fruitfully spent and not frittered away on undeserving Plan or non-Plan schemes. The government is in a position to control inflationary pressures with a judicious use of the vast funds at its disposal and it is needless to say that their misapplication will have the opposite effect.



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# The world crisis

Josselyn Hennessy

London

## as seen in the west

### I Perplexity in Bonn

It is not the safest thing to travel in a boat with an elephant—one false move and the boat may capsize. The comparison of the elephant, by which Professor L. Albert Hahn meant the United States, which at one time as the dominant economy determined the course of the world economy generally, is once again beginning to apply. This is because the European Economic Community is proving to be less of a united, homogeneous whole and at best a customs union of states, whose interests in the field of economic policy often diverge and who accordingly go their own way in monetary and foreign policies.

This conduct on the part of member states is mainly the result of paying too great attention to differing political situ-

EEC context—and some might see the comparison of the milch cow as occasionally more appropriate. In any case at present the United States and West Germany are together generating a gross national product worth approximately 5,000 million dollars per day, and this means that these two countries produce the equivalent of the annual gross national product of the United Kingdom in a month, that of the Netherlands in twelve days and that of Switzerland in a week. Looked at differently, were the production of goods and services by the United States and West Germany to come to a standstill for a few weeks, this would be equivalent to both the Netherlands and Switzerland ceasing production and consumption and thereby becoming inactive in the world economy for a year.

Viewed thus, it is not difficult to

government's stability policy and dubbing Chancellor Helmut Schmidt "deflator chief"—a title scarcely intended as compliment. According to the *Economist*, West Germany was seen by foreign observers as an international troublemaker which, because of its lower rate of price increases, was not caught up in the high rate of inflation prevailing in other countries while its relative importance caused it to exert a deflationary influence on the world economy. Less blunt but similar were the demands on the White House in Washington to switch at last from its restrictive policy to one of expansion. Under dual pressure from within and without, the West German government was the first to act, although the weakening of the economy with its concomitant effects on the labour market were less obvious than in the United States. The West German government also took stronger measures to avoid recession than did President Ford in his economic programme announced early in January, which was expressly conceived as a battle on three fronts—against recession, inflation and dependence upon energy supplies. In Bonn, by contrast, the main emphasis was on preventing recession.

### Stagflation in the US

As early on as the beginning of October President Ford submitted a plan in which he proclaimed inflation public enemy No. 1 and which accordingly avoided any broad measures designed to revive demand generally. The President confined himself to proposals for relieving unemployment in specific areas which had been particularly hard hit and for encouraging investment by industry. The plan was less to loosen the tax screw than to give it another turn. Not only was this first effort stopped by Congress where the opposition is in the majority several times over, but it was also overtaken by events—the shadow of recession both spread and darkened without any noticeable lessening of inflationary pressure.

In December the number of American in employment fell by 550,000 to 85.1 million, thereby dropping no less than 1.4 million below the September level. This was largely due to an unusually sharp decline in orders received by those

## WINDOW ON THE WORLD

ations at home at the expense of what stability would require and this in turn leads to widely differing inflation rates within the community. Just because such differences are dynamite to any remains of monetary union, to a customs union and ultimately to free trade, the movements of that economic giant, the United States, are regaining some of their importance, particularly when there are clear parallels between it and West Germany as regards the rhythm of the economy and when the two countries have similar structural difficulties.

West Germany can hardly be described as an elephant in economic terms, but it is fair to think of it as a horse within an

understand that, as the world economic climate plunged into decline, the troubled eyes of industrialised countries turned to Washington and Bonn, while the West German government itself put some additional urgent matters to the American administration. There is common concern that recessionary trends, such as were to be observed mainly in the United States but also in West Germany, might turn into a genuine depression and mark the beginning of a grave world economic crisis.

Among the chorus of worried voices was heard that of the London *Economist*, which towards the end of 1974 published an article critical of the West German



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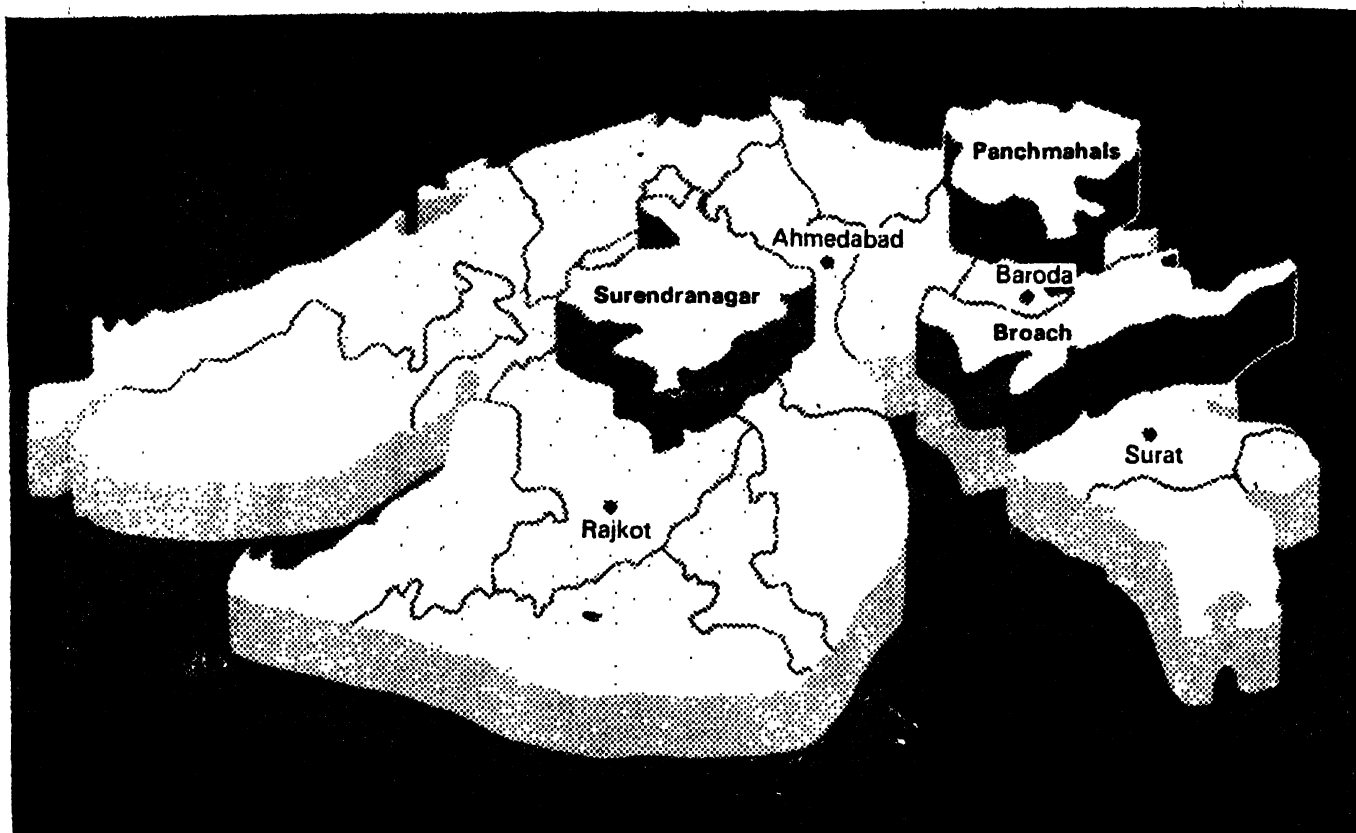
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colors of industry which set the tone of the economy, and the immediate consequence of this decline was a revision of investment plans. Whereas in autumn had been industry's intention to increase investment by an average 12 per cent in 1975—which in any case would have meant no increase in real terms because of price increases—the results of survey carried out in November were much more modest. There is no doubt that economic trends in the United States are continuing to move downwards in the new year. The magazine *Business Week* also notes an appreciable change in the attitude of American consumers, whose proverbial tendency to use consumer credit has been reversed owing to growing unemployment. In November, consumers reduced their liabilities by more than 400 million dollars, the sharpest monthly drop since statistics for consumer credit were first kept.

The response in the United States to President Ford's second economic policy programme recently announced has generally been one of rejection or scepticism. This shows a second parallel to the situation in West Germany, where there is also doubt as to the lasting success of the reflationary policy introduced in December. On neither side of the Atlantic does such scepticism derive primarily from ideological or party-political opposition; it is basically the expression of a deep-rooted uncertainty, for whether we accept it or not, it is a fact that history has never before witnessed so strong a combination of recessionary and inflationary trends. Theorists have produced a dazzling display of measures to combat recession and these are always applied early—usually even too early. There are also effective instruments of fiscal and monetary policy that can be used to combat inflation; unfortunately these are generally applied too little and too late. Neither theorists nor practical economists have as yet devised methods for dealing with a coincidence of both recession and inflation. As long as they are strong enough and maintained for a sufficient length of time, Washington's war on three fronts and Bonn's dual strategy may be seen as the first practical experiments. The success—or lack of it—of the carefully calculated policy of reflation will, if nothing else, supply material for study by politicians and economists.

## II

### Bright Future for "Third World"

Crisis literature is the fashion. Whether in the economic short term or in the long term, there is widespread fear that the goddess of Fortune is about to desert the economy. Not even the

popular nostalgic look back to the "Golden Twenties" is any consolation. On the contrary, it was then that the Russian business analyst Kondratieff discovered those business cycles extending over more than fifty years which alone, according to his Austrian colleague, Joseph Schumpeter, were responsible for innovations and the resulting genuine revival of economic activity. If this were so, the industrial nations would not reach this phase of revival before the eighties and would suffer an economic crisis in the interim.

What is more, this picture of the future hardly encouraging as it is, is based on the assumption that economic structures and power relationships will remain fairly stable. Since the oil producing countries started dictating prices in October, 1973, however, the structures which were characterised by the differences in wealth between industrialised and primary producing countries also began to totter. The political power structure as between free enterprise and socialist countries has in any case suffered a shift as a result of the growing importance of China and the changes in China's foreign policy.

### fate of the nations

The fate of nations depends more than ever before on economic factors, particularly at a time when changes in the pattern of individual economies are under way.

The price cartel of the oil producing countries has created new groups and power relationships. The countries of the Persian Gulf—which if the Arabs had their way—would be called the "Arab Gulf" in future—have a common aim which overrides their old rivalries: To raise the standard of living of their peoples as long as the sources of their wealth remain productive—that is, within the next thirty years. They share this aim not only with their Latin American partners within the oil cartel, but also with the primary producing countries of the Third World, whose products have participated in the upsurge of prices during the last few years. Following the example of the oil producers, they are also trying—with varying success—to establish price cartels.

The causes and results of the shift in economic power in favour of the Third World, which is now taking place, are discussed in a book published recently by Editions Lattes, Paris, entitled *Aujourd'hui et Demain* (Today and Tomorrow). The authors are Bernard Berteloot, an economist, and Philippe Heymann,

editor-in-chief of the French journal *Vision*. In the midst of the cries of woe which characterise the present time, the favourable aspects that the book outlines, at least as far as the Third World is concerned, are worth noting. They are based on the assumption that the downward movement of prices like the trend which, following the steep rises in raw material prices, made itself felt last year in important industrial raw materials, excluding oil, could be ascribed to cyclical or speculative causes and was therefore not of a permanent nature. In the long term, the trend of raw material prices is upward, a conclusion that makes sense in view of the rise in demand to be expected from a growing world population with a rising standard of living.

### psychological barrier

Statements made by the Arab business leaders suggest that in the long run, the countries of West Asia will not be greatly interested in major investments in European industry. They had come up against psychological resistance in France and West Germany, which gave rise to fears of risks such as nationalisation. Moreover, the countries of West Asia face an extraordinarily high need for capital in their own part of the world, for their per capita income is in some instances far below that of the industrialised nations. Even in a country as thinly populated as Saudi Arabia, the per capita income has reached little more than 10 per cent of the comparable Swedish figure. It is not surprising, therefore, that the new oil wealth has led to a regional solidarity, which is felt not only in the Arab countries, but also in Latin America. Kuwait is already financing gigantic industrial projects on the Egyptian Nile; Iran has granted Syria a major credit for industrial investments; Saudi Arabia is investing in the Sudan, Venezuela—also a member of the oil producing countries' price cartel—has made sizeable funds available to the Inter American Development Bank and other development bodies for Latin America and has indicated its intention to finance the buffer stocks of central American coffee producers.

The two French authors regard the privileged countries of the Third World as all those who held key positions in supplies to the market. India and China for example, supplied half of the earth's rice requirements. Half of the overall coffee production came from Brazil and Colombia. Half the tea in the world came from India and Ceylon. Ghana, Nigeria and Brazil were supplying three-quarters of world cocoa production; India around a third of the groundnut

crop; - Jamaica a fifth of all bauxite extracted; Malaysia a third of all mined tin. China is joined by the Soviet Union as one of the countries favoured by the distribution of raw materials.

In world-wide terms the two French authors feel that the hour of the primary producing countries is coming. Their pent-up demand for capital goods and consumer products could well avert the dreaded economic depression and, in the long term, ensure a satisfactory level of utilisation of production facilities internationally, even though it will involve changes in the pattern of production, which could be painful for the old industrialised countries; the industrial triangle of the United States, Europe and Japan might break apart in the process.

In fact these countries are experien-

cing difficulties in coping with the deficit in the balance of trade resulting from the increase in oil prices, in spite of the recycling of petrodollars. In relative terms Japan has done best even though this has involved putting up with a painful recession caused by severe restrictions. Since it would be no longer possible to recover fully in the world market the rise in cost of export products in these countries, the French authors feel that this would cause production facilities to be shifted more and more to the Third World, where sufficient labour is available on the spot.

A development of this kind is bound to be explosive in social and political terms. The French authors agree that Europe's future in particular looks somewhat dark within their picture of the future. The change in economic patterns now under way reduces Europe's oppor-

tunities for growth, cuts living standards, increases the dissatisfaction of many with present conditions, steps up social tensions and leads to creeping government control. The world of tomorrow may have to live under this shadow over its economic future, unless it not only accepts the change in existing economic patterns originating from the Third World, but also sees in this change a challenge for greater flexibility in adapting the productive resources of the market economy to new conditions.

**Sources and acknowledgements:** The foregoing summarises a report in the latest issue of *The Economic Review* of the Berliner Handels-Gesellschaft Frankfurt Bank (10 Bockenheimer Landstr, D 6 Frankfurt I, West Germany) but the bank is responsible neither for the emphasis of my summary nor for my interspersed comments.

E. B. Brook  
London

# Inflation travels east

WITH RATHER less than four months to go before the British referendum on Common Market membership, a series of elections in West Germany threatening its Socialist-Liberal coalition and increasing weakness in the USA's economy, there is inevitably a lull of uncertainty in European affairs. The lull and the uncertainty extend beyond west Europe; the east is also almost equally perplexed. In West Germany economic and social nervousness increases—and when West Germany is nervous the rest of Europe grows nervous as well.

A few weeks ago the Common Market and east Europe's Comecon—the organisation for economic mutual assistance—took an official look at one another in Moscow and neither host nor guest was markedly impressed. The director-general of the Market's external affairs division thought the Russians were more concerned to be forthcoming toasts than forthcoming trade partners and the Russians were convinced the Market was dragging its feet until the Market could show more internal solidarity than it does at present. The Russians regard the Market as a possibly disappearing entity—in detail if not in entirety. The disappearance, Moscow considers, has begun with west Europe's united agricultural market with Federal Germany no longer prepared to provide almost unlimited financing for subsidies and the French and British following differing policies. Unlike many others in the continent, Moscow also expects Britain to leave the Market, although it

may be miscalculating the power of the first British referendum at the end of June. Constitutionally, even if that referendum comes out against Market membership the British parliament is not bound to follow that opinion. But the effect of Moscow's doubt about the Common Market's future is to make it more concerned about West Germany.

## Contrasting perspectives

Europe, beset by weaknesses and differences, is moving back once more to its traditional positions. France is, in many ways, going ahead alone; Britain is, not for the first time, an uncertain quantity. The energy crisis may have produced the appearance of some unity, under American pressure, but it also produces renewed differences because of the Market members' varying individual relationship with the oil producers and their contrasting perspectives. Even the effort to produce a common policy among oil consumers may lead slowly to more discords. In east European eyes this may easily produce a leadership for Federal Germany within the Market and Moscow expects this as a certainty if Britain relinquishes its membership. Without Britain as a counterweight France, in Moscow's opinion, would move towards West Germany, leaving east Europe more isolated.

The uncertainty felt in east Europe about the Common Market's future is shared in part by the Market's own Economic Affairs Commissioner who told the

European Parliament in Strasbourg that the Market's era of unlimited prosperity had gone for ever. "The growth rate of private consumption," he said, "is in future bound to lag behind the national product as a whole" and overall unemployment would approach four per cent. This year, total west European unemployment will be well over four million and may approach five million. The industrial union of the Common Market reporting from Brussels, also denied the possibility of further economic development in the Market area.

It is by no means the best time, from its viewpoint, for the Market to begin talking with Comecon and overall weakness in the west and an approaching possible dominance by West Germany appear to have been the political reasons behind Comecon's economic decision at its executive committee's meeting in Budapest in January to abandon its long-term practice of five-year price-fixing in favour of annual price reviews. East Europe realizes it must be both politically and economically more flexible and ready to move in face of west European and American weakness. It will not be easy for the other east European states to pay Moscow at least twice as much for Russian oil but they consider themselves lucky not to be obliged to buy overmuch oil from west Asia. What worries them, as they prepare pipelines in Yugoslavia, Hungary and into southern Czechoslovakia, is that more and more Arab oil will have to be imported through Riyeka as Russia uses ever more

of its own product and supports its foreign exchange position by selling twice as profitably to west Europe.

The west European inflation is entering east Europe both through normal trade exchanges—forcing Hungary frequently to revalue its forint protectively and increase price levels at home—and through the new Comecon practice of annual price reviews and, from this year, basing charges on a rolling average over five years. In this way, this year's prices are being based on the average of 1971-75 which is a direct introduction of the west's inflation.

There is some amusement in reading press comments on federal Germany's economy. While the Russians are chary and suspicious, the Americans and others are a trifle jealous of West Germany's success in having again pulled ahead of the USA. In the 1960s the international system of fixed exchange rates concealed the rising economic power of west Europe and Japan as the overvalued dollar increasingly concealed the fact of others' wealth. Two devaluations of the dollar, its long slide in the currency markets in 1973 and its current further decline have helped raise the West German GNP per capita above the American level. The Americans regard this, as depression and unemployment grow worse, with some jealous envy: the

British, harried by anxiety over union demands, express admiration of the willingness of West German industry to invest heavily, the ability to raise the exchange value of the mark and thus cheapen imports and, above all, of the willingness of the West German trades unions to accept the fact they should forgo sizeable increases in wages in order to achieve price stability at home and ensure their own job security.

The German sees it very differently. Typical is the headline on the commercial page of the *Munchner Merkur* "Finance deficit grows and grows — Figure will reach this year the highest minus since the beginning of the Federal Republic." The German is acutely aware that his record gross national product figure has been artificially pushed up by inflation rather than by any degree of real growth and that his whole economy is based to a dangerous degree on export sales which, with recession in its primary market, the USA, are seriously threatened. Despite Russian suspicions, what is actually happening is that the two strongest economies in the western world—the American and the West German—are simultaneously losing momentum. The move towards protectionism in the USA is a major anxiety for the Germans.

While these stronger western econo-

mies are striving to avoid recession two active but weaker Market economies, France and Italy, have moved to measures to improve their positions. The French have been very active in west Asia, particularly with Iran and the minister for Foreign Trade, M. Segard, is insisting on improved representation of French trade abroad. The French commercial network is inferior to French production capacity and French investments abroad are insufficient. Only 30 per cent of French exports are carried in French ships and France lags in commercial insurance. The Frenchman is far too much a stay-at-home to be commercially a leader or even challenger and this aspect of French life appears to be in for a shake-up. The Italians, slowly turning the corner from a near-collapse of the economy, have improved their balance of payments situation by higher taxes, better tax collection and other measures to set their house in order. This has enabled them to loosen the credit squeeze and put about 1½ billion dollars into their economy, improving credit facilities for investment in export-oriented industries, agriculture and scientific research. The two states may be expected to cooperate commercially soon in such near market areas as north Africa and western Asia, particularly in light industries and communications.

## EASTERN ECONOMIST

### Budget Number

EASTERN ECONOMIST dated March 7 is a special number devoted to a discussion of the central budget. As in the previous years, this Budget Number presents an analysis of the budget proposals and a study of the budget documents in the larger economic context as well as in specific details. This issue includes relevant budget literature and statistics. Priced at Rs 10 per copy (postage extra) this special number is on sale with leading booksellers and news agents. Copies can also be had from the office of the *Eastern Economist Limited*, Uco Bank Building, Parliament Street, New Delhi-110001. New subscribers, who remit the annual subscription of Rs 100 before April 30, 1975 will also be entitled to receive a copy of this Budget Number free of charge.



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**T.S. Krishna, the industrialist** who died in Madras on March 8, was of a rare breed — a truly self-made man despite his family wealth or business. Every dynamic institution has its power-house of ideas and energy and T.S. Krishna was the core and centre of the great TVS complex in the south. He was loyal to many things most of which were worthy, including the interests of those who were his friends, but his greatest loyalty was to perfection in labour; hence the spectacular standards of quality of all the enterprises that bore his stamp of leadership. Daring in ideas, positive in action, clear-headed and firm of mind, he would not suffer fools gladly, but was nevertheless amazingly tolerant of the faults and foibles which, he knew, so often went with human nature. The world in which he moved is the poorer for the passing away of a forceful personality, with many likable attributes, who found grace in his works.

**I am reproducing below** extracts from a cautionary tale of our times which appeared in the issue of *Newsweek* dated March 3 and, while making it clear that no allusions are intended, I would inform my readers that they are free to draw for their own amusement any analogy they like:

"Even at rest, the sleek, three-wheeled Dale, looking very much like an Italian Ferrari, seemed too good to be true. Claims that it could go 70 miles on a gallon of gas, make 90-degree turns safely at high speeds and cost less than \$2,000 made it seem all the more unbelievable. On top of that, the supercar was going to be produced by the untested Twentieth Century Motor Car Corp... Last week, as police and courts probed the strange dealings of Twentieth Century, it was clear that the Dale and the company were indeed too good to be true.

"Before the law finally moved in, countless people had shelled out thousands of dollars for Twentieth Century shares and the right either to buy Dales or dealerships. It was unlikely any would ever see his money again or, for that matter, see a Dale.

"The Twentieth Century Motor Car Corp.

had been a newcomer to the automotive scene... One model was to be the two-passenger, 1,000-pound Dale, named after the car's original designer, and set to cost less than \$2,000...

"The company used a simple tactic to attract investors. It ran a series of newspaper ads offering jobs. When people showed up in response they were talked into buying company stock for \$1 a share but according to authorities, only a few got jobs. Later, the company began selling distributorships for \$35,000 and option to buy the cars for amounts ranging up to \$1,969.

"The operation didn't last. On Feb. 5, Twentieth Century's top officers were charged with conspiring to commit theft by selling dealerships and options on the basis of false claims. Shortly afterward, a judge ordered the company placed in receivership after hearing testimony casting doubt on the Dale's ability to live up to its billing...

"... authorities don't know how much money was taken in by Twentieth Century, where it went, and just who lost out in the deal. There is no list of stockholders and no stock book;...

"But right now, Twentieth Century doesn't have a car that works. Its one prototype has been impounded in Dallas and one company official admitted it didn't run well enough in tests to be put into production."

This story, let me once again make it clear, is about what happened in the United States repeat the United States to a small car project that was that was.

**In this column, on** February 28, I was rather harsh on the vice-president for confusing 'consumerism' — which is a consumer movement against unfair trade practices and for safeguarding consumer interests — with excessive indulgence by people in consumption goods or material possessions. I am surprised to note that the deputy chairman of the Planning Commission, is also labouring under the same misapprehension as Mr Jatti. As reported in *The Times of India*, Mr Haksar, delivering the Bhabha Memorial Lecture, said that it would be a great mistake to 'infest' India with the consumerism of the western society. Have we reached a stage where semi-literate speech-writers in government offices have taken over the job of

drafting even scholarly discourses to be delivered by busy men in big positions who have ~~no~~ much to do that they can do very little of it themselves? Or, which could be worse, are we now in some Alice-in-Wonderland where words have whatever meaning that persons in authority feel disposed to feed into them at any given moment?

**In the course of the** lecture to which I just referred, Mr Haksar delivered himself of the thought that no planning process could be grafted on a society tortured by divisions or accustomed to theological modes of thought. Since I do not have the full text of his speech as I write, I do not want to comment on his reference to 'divisions' since the press report — this time I am referring to the one in *The Hindustan Times* — does not say enough to enable me to divine what precisely Mr Haksar is driving at when he speaks of 'divisions' in the context of planning. I would however like to react off the cuff to his assertion that planning cannot go along with theological modes of thought. Seeing that so much of what goes by the name of planning is taking place in communist countries, I should have thought that theological modes of thought should be the last thing to come in the way of planning or planners.

Mr Haksar has only been a short time in the Planning Commission, but I have already heard people suggesting that he is perhaps a misfit. Could it be that he is already out for excuses and that he is making ready to blame it all on the theological attitudes to which Indian — or, could it be, Hindu? — society is alleged to be a slave? In any case, what does Mr Haksar plan to do about it? Maharishi Mahesh Yogi at least seems to offer a solution of sorts. Which, incidentally, reminds me that I should refer to the two-page feature in *The Times of India* of March 10 of the Maharishi's "science of creative intelligence" — which could perhaps be the antidote to the theological modes of thought for which Mr Haksar at the Yojana Bhavan is groping — and the "Inauguration of the dawn of the age of enlightenment." Having thoughtfully put a note that this is "a sponsored feature", the publishers and editor of this national newspaper which, as we all know, is so totally devoted to rationality in human affairs, evidently believe that they have done their duty by such scruples as they may have. There is a worldly wise folk saying that the money you make by running a kennel does not bark.



# MOVING FINGER

# TRADE WINDS

## US-Iran Cooperation

THE US-IRAN joint commission completed its second session in Washington recently. The Iranian delegation was headed by Mr Hushang Ansary minister of Economic Affairs and Finance, and the US delegation by the Secretary of State, Dr Henry A. Kissinger, who are the co-chairman of the commission. The joint commission was established in November 1974 in order to broaden and intensify economic cooperation and consultation on policy matters.

The commission reviewed the work done by its five joint committees, which had met during January and February, and approved a large number of technical cooperation projects and development programmes which had been recommended by the committees. The commission concluded that the scope for cooperation between the two countries for their mutual benefit was almost unlimited. In the light of the strong desire on the part of the two sides to extend areas of mutual cooperation, the commission set a target of dollars 15 billion in total non-oil trade between the two countries during the next five years.

Major Iranian development projects selected for cooperation between the two countries include a series of large nuclear power plants, totalling 8,000 electrical megawatts, with associated water desalination plants; 20 prefabricated housing factories; 100,000 apartments and other housing units; five hospitals with a total of 3000 beds;

establishment of an integrated electronics industry; a major port for handling agricultural commodities and other port facilities; joint ventures to produce fertilizers, pesticides, farm machinery, and processed foods; super highways; and vocational training centres. The total cost of these projects is estimated to reach 12 billion dollars. The commission also recognized the special importance of cooperation between the two countries in the field of petrochemicals, and took note of major projects under study for joint ventures between Iran and major companies in the United States to produce petrochemical intermediates and finished products for general use in Iran and for export.

The commission agreed that a Joint Business Council could play a very useful role in broadening contacts between the business sectors in both countries. The two sides agreed to cooperate actively in the development of the Iranian capital market and in the establishment of Iran as a financial centre for the region. It was agreed that a financial conference should be held in Tehran before the end of the current year, to which would be invited high officials of the two governments as well as leaders of banking, insurance and other financial institutions. Substantial progress was made towards conclusion of an agreement on cooperation in the civil uses of atomic energy. This agreement will provide for a broad exchange of information on the application of atomic energy for peaceful purpose, and for related transfer of equipment and materials, including enriched

uranium fuel for Iran's power reactors.

In order to facilitate exchange of technical specialists, the two co-chairmen signed a reciprocal agreement for technical cooperation. Technical cooperation projects were agreed upon in agriculture, manpower, science and higher education and health services. The commission agreed to emphasize scientific programmes in the fields of oceanography, seismic studies, geological and mineral surveys, remote sensing applications, and radio astronomy.

Agreement in principle was also reached between Iranian and US private interests on projects for production of graphite electrodes, sanitary wares and trailers and for establishment of a hotel chain in Iran.

## Grindlays Bank in Philippines

Grindlays Bank Limited has bought 33.5 per cent of the equity of General Bank and Trust Company of the Philippines (Genbank). The Central Bank of the Philippines approved this investment in Janu-

ary and an agreement was signed by Grindlays and Genbank in Manila recently. Genbank with its head office in Manila has 22 branches and provides a full range of banking services. Grindlays already hold 20 per cent of the equity of Genbank Development Corporation, an investment banking company operating through 20 branches in the Philippines.

## Development Corporation for Goa

The Economic Development Corporation of Goa, Daman & Diu Ltd has been established recently to stimulate industrial growth in the region. The territory has a few favourable factors such as a good port, a high degree of urbanisation, communication and infrastructural facilities, an educated and skilled labour, existence of capital and entrepreneurship, and resources such as minerals, fisheries and agricultural residues.

The Corporation has been set up as a fully owned government company under the Companies Act. The govern-



CHV-62-102

ment would contribute Rs 25 lakhs as the share capital of this Corporation. It is expected to mobilise its own resources. The first Board of Directors of the Corporation is: Acting Chairman, Mr R. L. Chowgule, Marmagao; Members, Mr David Menezes, Panaji; Mr Mohandas Amonkar, Bicholim; Mr R. P. Rai, Director of Industries, Mr S. D. Kushare, Chief Electrical Engineer; Mr B. R. Naik, Principal Engineer, PWD. The Managing Director is Mr S. G. Nadkarni.

The activities of the corporation will cover identification and promotion of the right type of industrial projects at the right locations by directly undertaking a project or by joint participation with other government or private bodies or by financial assistance of various types. The Corporation will also be an agent of government for schemes of tax incentives, subsidies, etc. Preliminary work has been done in respect of a few projects which will be launched soon. The first project to be promoted by the Corporation will be pharmaceutical formulations project which will be non-polluting. It will be set up at Tivim and will employ about 150 educated persons. The project will be in the joint sector and is expected to be completed within a year.

### Assistance from UK

Two agreements with Britain—one for Rs 38 crores maintenance loan and another food grant of 30,000 tonnes worth four crores of rupees were signed here recently. The maintenance loan will provide for import from Britain of non-project goods. These will include raw materials, spare parts and components required to service India's industrial and agricultural production. This loan represents additional assistance over and above the Rs 142 crores (or £ 75 million) pledged to India by Britain at the meeting of the Aid India Consortium during 1974. The new loan brings the total fresh aid pledged to India for this financial year to Rs 180 crores

or £90 million. The loan will be free of all interest and service charges and repayable over 25 years including a seven-year grace period.

The second agreement signed is for the grant of 30,000 tonnes of foodgrains. The foodgrains aid will consist largely of wheat, will be available for sale through the fair price shops. This is part of Britain's contribution to the EEC Cereals Food Aid programme for the harvest year, 1973-74. It will be delivered as soon as arrangements can be made for shipment, according to a press note. The agreements were signed by British High Commissioner Sir Michael Walker and Economic Affairs Department secretary, Mr M.G. Kaul.

### New Taxes in Maharashtra

The Maharashtra budget for 1975-76 presented to the assembly recently by the state Finance minister, Mr M. D. Chaudhari, shows an overall deficit of Rs 37.32 crores on revenue and capital accounts. However, with the new taxation proposals and the additional share of income-tax and central excise duties of the order of Rs 20.60 crores, there will be a surplus of Rs 44 lakhs. The budget estimates show revenue receipts of Rs 890.48 crores and expenditure of Rs 885.21 crores. Thus there is a surplus of Rs 5.27 crores. On capital account, receipts are Rs 564.65 crores and expenditure Rs 607.24 crores—deficit of Rs 42.59 crores. The overall deficit will be of the order of Rs 37.32 crores. The revised estimates for 1974-75 will end with a surplus of Rs 4.21 crores, as against the anticipated deficit of Rs 21.78 crores.

The budget has provided Rs 15 crores for enhancing dearness allowance of the state government employees. Mr Chaudhari estimated that the various employment guarantee cesses will yield a net revenue of Rs 10.92 crores, after allowing for the expenditure on collection. Since compen-

sation of Rs 50 lakhs will have to be paid to local bodies that were levying this tax hitherto the net yield to the state exchequer is placed at Rs 10.42 crores. The Finance minister proposed additional taxation on the agricultural sector to yield Rs 2.34 crores for the employment guarantee scheme. The minister has also provided Rs 90 lakhs to give a relief to the pensioners. All government pensioners, who retired before January 1, 1975, but after April 1, 1966, would be given a temporary increase of Rs 14 a month in pension. Those who retired before April 1, 1966, would get a temporary raise of Rs 21 a month. Simultaneously, the minimum pension has been increased from Rs 40 to Rs 50 a month. The state government has also decided to extend the social security benefits to the families of its employees following the centre's policy.

### Oxfam Aid

Oxfam, an international funding organisation based in England, will give about Rs 2 crores for various projects in India during the next financial year. One-third of this amount will be spent in drought and flood hit areas, specially on various emergency food programmes. This was stated recently by Mr Michael Harris, Overseas Director, Oxfam. It has been decided that various Oxfam-financed projects in India should tackle the problem of poverty at village level with the involvement of local people.

### Assistance to ICICI from World Bank

The Industrial Credit and Investment Corporation of India is currently negotiating a loan of \$100 million from the World Bank for financing industries in the country, the Chairman Mr H. T. Parekh, stated recently. Mr Parekh added that the negotiations in this connection were proceeding satisfactorily in New York. The Corporation was also exploring the possibility of securing petrodollar loans from West Asian countries, Eurodollar loans from Euro-

pean countries and loans from United Kingdom and West Germany.

### Cardamom Nations

The Cardamom Board has decided to approach the government for permission to convene a meeting of a cardamom producing countries—India, Guatemala, Tanzania and Sri Lanka—to explore areas of common action for the promotion of cardamom consumption, marketing, sharing of experience in production and research. At a recent meeting of the board it was resolved that a study team should visit Guatemala and Tanzania to obtain first hand information on cultivation techniques of cardamom in those countries. Another important decision taken by the board was to recommend to the government an increase in the rate of replanting loan assistance from Rs 1,600 per acre to Rs 2,400 from the next financial year. The board fixed the target of production of cardamom during the current year at 2,700 tonnes, export at 1,750 tonnes valued at Rs 11.5 crores. It further decided to recommend simplification of Cardamom (Licensing and Registration) Rules, 1962. Addressing the board meeting Prof K. M. Chandy, Chairman, stated that the board would be undertaking and assisting research on problems of production and processing of cardamom.

### Drilling Rigs for Iraq

Volta has received a major contract from Iraq for the supply of waterwell drilling rigs. The order is for 10 drilling rigs valued at approximately Rs 80 lakhs, including accessories. The shipment of the first consignment of four rigs would be made immediately, while the last lot would be shipped by the end of May. The contract was awarded to India on a global tender and against intense competition from the US, Europe and the USSR.

### Tyre Prices

Rationalised prices of tyres will go a long way to bring relief to consumers who had

for long been harassed in finding the tyre that they wanted and at fixed rates. Since the prices got rationalised, a quick survey shows that the tyre market has picked up reasonably. Relief is now given for white walled tyres of cars to the extent of two to four per cent and for black two per cent in prices. This relief is made up by marking up price of tyres for trucks and other heavy duty vehicles. Scooter users will also benefit by a two per cent relief. A look back in the market shows soaring prices of tyres although the manufacturers had not cut their production, but, some had given emphasis on the brand of tyre which would have brought more profit. As a result less production in another brand did cause hardship to the consumer. Under rationalised pricing now introduced all tyre makers will give equal emphasis to produce the different brands. However there will be slight increase in prices to absorb the effect of two per cent hike in excise.

### Exports of Engineering Goods

The Engineering Export Promotion Council expects that engineering exports would touch the Rs 500-crore mark by the end of 1978-79. A spokesman of the council said, the value of exports of engineering goods touched nearly Rs 200 crores in 1973-74. The estimated performance during 1974-75 was Rs 260 crores against a target of Rs 250 crores. Ten top exporters of engineering goods are to be presented rotating shields by the council for their performance in exports by Prof. D. P. Chattopadhyaya, union Commerce minister, at its 19th annual general meeting at New Delhi. Certificates of merit would also be presented to selected exporters at this meeting, the spokesman said.

### Rubber Goods Exports

India exported rubber goods worth Rs 2.6 crores during the first eight months of the current financial year compared to about Rs 1.4 crores during the corresponding period of

the preceding year. In 1973-74, Indian rubber manufactured goods secured foreign exchange worth 3.16 crores compared to Rs 1.43 crores in 1972-73. The target for the full year of 1974-75 stands at Rs 4 crores. Cycle tyres and tubes were the largest export earners during April-November 1974. Their exports registered a sharp increase at Rs 95 lakhs against only Rs 40 lakhs during the corresponding period of 1973. Afghanistan, Australia, Bangladesh, Belgium, Dubai, Ghana, Fiji, Iran, Iraq, Kenya, Malaysia, Saudi Arabia, the UK and Zambia are the prominent importing countries of Indian rubber-products.

### Cashew Exports

Indian cashew exports during the first 11 months of last year registered a decline of about 12 per cent in terms of quantity. But the higher unit value realisation, as in the case of textile exports, has come to the rescue by earning nearly Rs 19 crores more in foreign exchange. Several leading importers of Indian cashew reduced their purchases. The USA, Canada, Japan, Britain, West Germany, East Germany and Czechoslovakia slashed their purchases during January-November 1974, compared to the same period in the previous year. The Soviet Union topped the list of importers with an offtake of 23,690 tonnes. Australia and Hong Kong improved their offtake marginally. During January-November last year, India exported 48,133 tonnes netting Rs 90.1 crores, against 54,344 tonnes in the same period in 1973 earning Rs 70.66 crores.

Cashewnut shell liquid export registered an increase both in terms of value and quantity during the period under review. Japan and the USA were the significant buyers which improved their imports to 1,627 tonnes and 1,166 tonnes respectively from their earlier level of 1,230 tonnes and 406 tonnes.

### Tankers for Crude

The union government has

decided to provide its own tankers for import of crude for the Hindustan Petroleum Corporation's refinery, at Bombay from March 15. Under an agreement signed at the time of the take-over of Esso, the American oil company had agreed to transport crude from Rastnura in Saudi Arabia in its own tankers at AFRA rates for one year. Although during the past few weeks there have been moves from the government side to persuade Exxon to continue to bring crude in its own tankers, but the management of Exxon is believed to have expressed its inability in extending the contract any further.

The Union government evidently did not press for extension of the contract owing to a sharp fall in shipping freight in recent months. While large tanker charter rates in the international market have fallen by about 35 per cent, medium sized tankers rates have not shown any steep fall. But the spot quotations for medium sized tankers cur-

rently are lower than the AFRA rates that were being charged by Exxon and to that extent the country would save on foreign exchange.

### Essay Competition Award

Miss Parveen Arjan Singh, III Yr. B. A. student of Lady Shri Ram College for Women, New Delhi, has been awarded the first prize of Rs 250 in the 18th All-India Essay Competition for college students arranged by the Forum of Free Enterprise for the academic year 1974-75. The other prize winners are; Miss N. Uma of Stella Maris College, Madras—second prize of Rs 150; Mr Parikshit Basu of Narendrapur Ramkrishna Mission Residential College, Jalpaiguri—third prize of Rs 100; Miss Vijaya Shastri of Nagpur Mahavidyalaya, Nagpur—fourth prize of Rs 75; Miss Achala Arya of Lady Shri Ram College, New Delhi—fifth prize of Rs 50; and, Mr S. V. Kogekar of BYK College of Commerce, Nasik,—sixth prize of Rs 25.

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# COMPANY AFFAIRS

## Markets Indecisive

SHARE MARKETS seem to be in an indecisive mood about the impact the budget will have on equity prices. Reflecting this mood share prices moved in an irregular manner during the post-budget week. After early feeble attempts at a rally, equities lost ground under persistent selling pressure. Hopes of operators have naturally been belied because the Finance minister did not announce either a revocation or substantial modification of the Dividend Act. The marketmen also noted with concern that what little concession that the Finance minister had announced namely that a dividend higher than 12 per cent can be declared by companies does not mean any immediate benefit or advantage to the equity investor as the changes announced do not hold prospects of obtaining higher rewards at a time when other forms of comparable investments are yielding a much higher return than those on the risk capital on equity. As a result selling pressure continued unabated, though the announcement of 33 per cent dividend by Century somewhat helped to arrest the trend.

Investors now hope that progressive managements will adopt a pragmatic approach in respect of declaration of dividends as has been done by Century mills. On the whole, the recent two-way movement of equities suggests that opinion in the market is sharply divided about the future course of prices. It seems irregular movements will continue for some time more before the market shows a decisive trend. Meanwhile major stock exchanges are expected to submit shortly proposals

to the government for drawing up a scheme under which a uniform formula can be devised for the payment of deferred dividends after the expiry of the Act.

## Century

The directors of Century Spg. & Mfg. Co. Ltd have recommended an equity dividend of Rs 33 per share for 1974, the same as in the previous year. Incidentally Century will have the credit of being the first company to declare a dividend higher than 12 per cent following the proposed relaxation of dividend curbs announced in the budget. The company will pay now a dividend of only 12 per cent. The balance amount of 21 per cent will be deferred and it will be made in two instalments after the expiry of the Act in July 1976. The directors have however clarified that if the proposed amendment does not fructify or is implemented in some other form, the quantum of dividend will be restricted to the maximum amount permissible by law (which at present works out at 12 per cent) but not exceeding Rs 2.34 crores calculated on the basis of 33 per cent. Meanwhile the company has reported spectacular improvements in sales, profits and profitability during 1974.

Sales during the year spurred by about 34 per cent to Rs 91.71 crores from Rs 68.39 crores while gross profit jumped by about 68 per cent to Rs 26.78 crores from Rs 15.95 crores, in 1973. Out of the gross profit, the directors have appropriated a sum of Rs 260.55 lakhs to depreciation reserve as against Rs 186.33 lakhs in the preceding year while development rebate re-

serve was allotted Rs 121.00 lakhs as compared to Rs 18.68 lakhs in the earlier year. Taxation absorbed Rs 15.80 crores as against Rs 8.50 crores in 1973. No provision has been made for gratuity which claimed Rs 82.80 lakhs in the earlier year. This leaves a substantially higher net profit of Rs 7.17 crores as compared to Rs 4.58 crores in 1973.

## Ashok Leyland

Ashok Leyland has the proud distinction being the first manufacturer to have passed on the benefits of its higher productivity and efficiency in the most tangible manner possible by twice reducing its prices in November 1974 and January 1975. A maiden attempt has been made to quantify the impact of inflation on various facets of the company's activities. Towards this purpose the normal profit and loss account has been compared with a profit and loss account duly adjusted for the erosion of purchasing power of money, calculated according to certain accepted norms.

The importance of this "inflation accounting" is being realised to a marked extent throughout the world and it seems that Ashok Leyland is one of the first companies in the country to provide its shareholders with such a valuable comparison. It will be seen that "inflation-adjusted profits" are considerably lower than the historical profits. The current method of computation for corporate taxation does not permit enough funds being available for replacement of assets vitally required. Hence it is earnestly hoped that the government will give due consideration to this aspect and devise suitable taxation policies

which will leave some liquidity in the hands of companies. This was stressed by the Chairman, Mr S. Ranganathan while addressing the annual general meeting of the company.

Despite economic problems in general and critical position in particular, Ashok Leyland had a record year in 1973-74 in respect of production, sales and profits. During the year 7295 vehicles were sold, an increase of about 40 per cent over the previous year's performance. No less than 62 per cent of the vehicles were sold to Defence forces, various branches of the government and state transport undertakings. Determined efforts are being made by the company to increase the level of exports. The company is already having orders on hand from Afghanistan, Jamaica, Nigeria, Oman, the Philippines, Sri Lanka and Trinidad. What is more the company is having the proud privilege and unique distinction of having bagged the biggest order ever for the Indian automobile industry — 500 complete buses for Zaire. A target to export 20 per cent of its output has been fixed by the company for 1975-76.

## Nuchem Plastics

Nuchem Plastics Ltd has reported impressive working results during the year ended September 30, 1974. Sales, including other income, during the year climbed to a new peak of Rs 5.79 crores from Rs 3.22 crores while gross profit nearly doubled to Rs 50.40 lakhs from Rs 27.92 lakhs in 1972-73. Out of the gross profit, the directors have appropriated a sum of Rs 24.27 lakhs to depreciation reserve as against Rs 14.75 lakhs while an amount of Rs 4.80 lakhs was marked for gratuity as against no provision in the earlier year. Development rebate reserve was allotted with Rs 12.30 lakhs as compared to Rs 2.08 lakhs in the preceding year. After adjustments there is a disposable surplus of Rs 9.70 lakhs out of which a sum of Rs 2.12 lakhs was tra-

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nsferred to general reserve and Re 1 lakh to preference share reserve. The directors have recommended a dividend of 12 per cent on equity and 9.5 per cent on preference shares. The balance of Rs 24,908 has been carried forward to next year's accounts. No provision for income-tax has been made in view of deductions and allowances permissible under the Income-tax Act 1961. The reserve now stands at Rs 47.69 lakhs after issue of bonus shares which absorbed Rs 14,99,500.

The year ended was a mixed one for the company. Though the demand for the company's products was substantial still it was not possible to meet the same due to various difficulties in production on account of shortage of raw materials such as methanol, melamine and persistent electricity cuts. The company exported nearly 12 per cent of its product of moulding powders. Research and development centre had been working creditably. Hexamine add hydraulic press projects were completed during the year. The company has received letters of intent for manufacture of glass filament-yarn and methanol. The feasibility reports and economics of these projects are being studied.

### Moline of India

The directors of Moline of India have maintained the equity dividend at 10 per cent for 1974. Although sales have been maintained around Rs 2.23 crores, gross profit after providing for depreciation moved up to Rs 68.27 lakhs from Rs 58.77 lakhs in 1973, the provision for depreciation being Rs 14.78 lakhs as compared to Rs 17.20 lakhs in 1973. Out of the gross profit, the directors have appropriated Rs 0.30 lakh to development rebate reserve as against Rs 1.73 lakhs in the earlier year while an amount of Rs 46.00 lakhs was earmarked for taxation as against Rs 40.00 lakhs in the preceding year. After adjustments a sum of Rs 28.31 lakhs has been transferred to general reserve as compared



## MANAGEMENT DEVELOPMENT INSTITUTE NEW DELHI-110057 CALENDAR OF PROGRAMMES 1975 (March-December)

| PROGRAMMES                                                                                             | DATES                   | VENUE      |
|--------------------------------------------------------------------------------------------------------|-------------------------|------------|
| 1. Workshop on Rehabilitation of Sick Projects                                                         | 10-14 March             | Calcutta   |
| 2. Fundamentals of Managerial Finance: Essentials of Financial Management for Non-Financial Executives | 7-12 April              | New Delhi  |
| 3. Workshop on Key-Areas in Materials Management                                                       | 14-19 April             | New Delhi  |
| 4. Systems Approach to Management                                                                      | 21-26 April             | Mussoorie  |
| 5. Management of Working Capital in Cooperative Spinning Mills                                         | 27-30 April             | Poona      |
| 6. Strategic Aspects of Corporate Tax Planning                                                         | 12-17 May               | Mussoorie  |
| 7. Advanced Management Programme: Effective Management of the Total Enterprise                         | 9-21 June               | Ootacamund |
| 8. Management Planning and Control Systems                                                             | 8-12 July               | Agra       |
| 9. Workshop on Discounted Cash Flow Techniques and Cost-Benefit Analysis                               | 11-16 July              | Poona      |
| 10. Finance & Accounting for the Sugar Industry                                                        | 21-26 July              | Lucknow    |
| 11. Seminar on Management of the Hotel Industry                                                        | 30 July-4 August        | Bangalore  |
| 12. Management of Sugar Industry                                                                       | 4-9 August              | Hyderabad  |
| 13. Seminar on Management of Managers: Management of Supervisory and Managerial Personnel              | 25-30 August            | Calcutta   |
| 14. Management of Sugar-cane Development                                                               | 8-13 September          | Bangalore  |
| 15. Identification, Promotion and Implementation of Industrial Projects (IPIIP)                        | 21-27 September         | Shillong   |
| 16. General Course on Development Banking                                                              | 29 September—25 October | New Delhi  |
| 17. Seminar on Strategies for International Marketing                                                  | 20-25 October           | New Delhi  |
| 18. Key-Areas in Financial Management                                                                  | 10-15 November          | Poona      |
| 19. Manpower Productivity and Incentives                                                               | 17-21 November          | New Delhi  |
| 20. Legal Aspects of Development Banking                                                               | 1-10 December           | Calcutta   |
| 21. Management of Joint Industrial Ventures—A Symposium                                                | 2-5 December            | Bombay     |
| 22. Management of Current Assets                                                                       | 17-24 December          | Goa        |

*For details please contact:*

**The Secretary,  
Management Development Institute,  
A-21, Palam Marg, Vasant Vihar,  
NEW DELHI-110057**



to Rs 6.85 lakhs in 1973. The recommended dividend will be paid out of the general reserve on or after June 4, to those whose names appear on the company's register of member as on May 14, 1975.

### Tribeni Tissues

Tribeni Tissues has secured the approval of the government for effecting substantial expansion of 10,000 tonnes for the manufacture of speciality papers such as insulating paper, plastic base paper and industrial filter base paper, besides cigarette and carbonising tissues. This expansion is proposed to be carried out in two phases, and the first phase of 5,000 tonnes will be implemented in the existing mill at Tribeni. Necessary arrangements have been practically completed.

A new wide modern paper machine will be built by a consortium consisting of Indo-Berolina Industries Private Limited, Bombay and Bertrams Limited, Sciennes, Edinburgh, one of the best known international paper machinery manufacturers. These two companies have entered into a technical collaboration agreement with the approval of the government of India. While the bulk of the equipment will be manufactured by the Indian company, Bertrams will be supplying certain critical components. To supplement the technical know-how for the manufacture of a more diversified range of products, the company will have the benefit of the services of its parent company Wiggins Teape Limited, UK, the leading international paper manufacturers operating a large number of paper mills around the world.

The cost of this project, including a margin for working capital, is estimated at Rs 1050 lakhs. Of this Rs 81 lakhs will be needed in foreign exchange for the direct import of plant and machinery. While a substantial part of this outlay will come from internal resources, it will be necessary to supplement it to the extent required by the issue of additional equity capital and

fresh borrowing. The company proposes to take this opportunity to reduce the foreign equity holding from 74 per cent to 51 per cent. For this purpose, the company proposes to issue new shares to the Indian shareholders, to the public, to financial institutions and to employees.

The rights issue to existing shareholders will be of 7,59,097 shares, two new shares being allotted for every three shares held. The fresh public issue will be of 6,92,767 shares. To financial institutions, 4,93,981 shares will be issued and to employees 30,000 shares. The consent of the Controller of Capital Issues has been obtained for this scheme. The shares will be issued at a premium of Rs 2.50 per share. The company hopes to complete the project and begin production by October 1976. With these new productive facilities, the company will be able to meet increasing domestic demand, to take full advantage of export possibilities, and to earn satisfactory profits.

### Bayer India

The year 1974 was yet another successful one for Bayer (India) Limited. Sales increased to Rs 21.30 crores recording a rise of 35 per cent over the previous year. All the divisions — Pesticides, Rubber Chemicals and Pharmaceuticals — have contributed their share to the substantial improvement in sales.

The company has earned during the year a pre-tax profit of Rs 4.66 crores after providing for depreciation of Rs 59.34 lakhs and development rebate reserve of Rs 5.00 lakhs. Income-tax provision for the year is Rs 3.12 crores. The directors have recommended dividend at the rate of 12 per cent for 1974. This dividend will be payable on a total equity capital of Rs 3.60 crores. The company expects 6.5 per cent of the dividend amount to be free of tax in the hands of the shareholders.

The company received an industrial licence for substan-

tial expansion of its manufacturing plant at Thana by increasing the production of Parathion Technical from 1200 to 1700 tonnes per annum and of Fonitrothion Technical from 100 to 500 tonnes per annum. The company has already taken in hand the expansion of its plants and the company expects to complete the expansion by the end of this year. The expansion is estimated to cost about Rs 2.58 crores and it is proposed to raise a part of the finance required for this purpose by issuing 32,250 equity shares of Rs 100 each at a premium of Rs 100 per share.

The Controller of Capital Issues, has granted consent to the issue of the said 32,250 equity shares of Rs 100 each for cash at a premium of Rs 100 per share to be issued to the Indian shareholders in the proportion of one new equity share for six existing equity shares held by the shareholders and the balance to the employees of the company in the manner that no single employee shall be allotted more than twenty equity shares. The company has also received an industrial licence for substantial expansion for the manufacture of rubber chemicals. In accordance with this licence, the company has been permitted to expand the annual capacity of rubber chemicals from 2003 to 6665 tonnes and has also been permitted to manufacture 2460 tonnes per annum of intermediates required for the manufacture of rubber chemicals.

As per the condition laid down in the industrial licence for substantial expansion of the manufacture of Chloroquine Phosphate from four to 12 tonnes, the company has installed the equipment needed for the manufacture from a more basic stage. Trial run of the new process of production is scheduled for April-May 1975, by which time the initial shipment of one of the intermediates is expected to be received from abroad. The company has recently received from the government a letter

of intent for expanding the capacity of Chloroquine Phosphate from 12 to 36 tonnes. The conditions of the letters of intent are being studied and the company's proposals will be submitted to the government in due course.

### Unichem Laboratories

Unichem Laboratories has fared extremely well during the current year. Its sales in the first five months of October-February of 1974-75 have gone up by about 15 per cent over the corresponding period of last year. Exports over the same period have risen by about 50 per cent, the company having succeeded in penetrating several industrially advanced markets. The company is having under consideration several proposals for diversification into certain basic drugs. It has received an industrial licence for certain items and the management has to decide on the location of the new project.

### Gammon India

Gammon India expects to maintain its profitability at the level of the last year, the performance on current contracts being generally satisfactory. The company has been invoking escalation clauses in contracts for major works and this helped it to stabilise contract prices and reduce risks. It has secured new orders worth Rs 2.93 crores for the current year at the end of February, and with the carryover of the work worth Rs 39.28 crores in progress, its order book stands at a reasonable level. The company has already made a beginning in the manufacture of large-diameter impellers for which there is a good demand. Besides, it has been carrying out feasibility studies in engineering and chemical fields with a view to diversifying its activity.

### Unit Trust

The sale and repurchase prices of the units of the Unit Trust of India were raised by ten paise each to Rs 10.65 and

Rs 10.35 per unit respectively with effect from March '6.

## News and Notes

**Tata Chemicals** have received the consent of the Controller of Capital Issues for the issue of 31,13,014 fully paid equity shares of Rs 10 each as bonus shares in the proportion of one bonus share for every two fully paid equity shares held by capitalising a sum of Rs 51,88,355 standing to the credit of the share premium account and Rs 2,59,41,785 out of the general reserve.

The Directors of **American Express Company** have announced an increase in the regular quarterly dividend from \$0.15 per common share to \$0.20 per common share, payable on April 1, 1975 to holders of record as on March 7, 1975. This is the eighth dividend increase in seven years, and also marks the 108th consecutive year in which American Express Company has paid a dividend.

The board of directors also stated that with this 33-1/3 per cent increase, it would shift future dividend payment dates to the tenth business day of the second month following the close of each calendar quarter. The next payment date will be on August 11.

There was a marked step-up in the assistance sanctioned and disbursed by the **Industrial Development Bank of India (IDBI)** during the first half (July-December 1974) of 1974-75. The total assistance sanctioned was Rs 154.67 crores as against Rs 77.31 crores in the corresponding half of 1973-74 and actual disbursements amounted to Rs 100.76 crores as against Rs 51.29 crores. The effective sanctions since the inception of IDBI up to the end of December 1974 aggregated Rs 1,127.75 crores, excluding guarantees at Rs 28.53 crores. The total assistance utilised amounted to Rs 827.15 crores, exclusive of guarantees issued at Rs 21.34 crores. The assistance outstanding as at the

end of December 1974 amounted to Rs 537.40 crores as against Rs 395.00 crores a year before.

The Prime Minister of Malaysia inaugurated recently Malaysia's newest sugar factory-Syarikat Gula N.S. (SDN) BHD, a joint venture of **Phaltan Sugar** of India and the State Development Corporation of Negri Sembilan, Malaysia. The M \$75 million project is among the biggest of its kind in that country. It is also one of India's largest single overseas investment in terms of scale, technology, equipment and training. The Indian technicians have designed, fabricated and installed a thoroughly up-to-date sugar refining complex having a crushing capacity of 2,500 tonnes of cane per day, with the assistance of Malaysian personnel.

The entire plant equipment worth over M \$20 million as well as supplementary workshop machinery was supplied by leading manufacturers in India to designs and specifications drawn up by Phaltan technologists. Indeed Syarikat Gula is a symbol of India's growing international stature in industrial technology. And, most important of all, it brought valuable foreign exchange to India.

## New Issues

**Upev India Bearings and Bushings** will be approaching the capital market shortly with a public issue of Rs 24 lakhs, all in equity shares of Rs 10 each at par. At present its plant at Madras is engaged in the manufacture of 120,000 pieces of bearings and bushings per annum. It now proposes to expand its capacity to 15 lakhs pieces each of bearings and bushings per annum. The unit is being put up at Ranipet which has been declared an industrially backward area. The capital outlay on the project is estimated at Rs 91.27 lakhs. It will be financed by the share capital of Rs 35.52 lakhs, subsidy from the central government of Rs 10 lakhs, term loan from TIFC of Rs 30 lakhs, from SIPCOT of Rs 5 lakhs

and deferred payment guarantee of Rs 10.75 lakhs.

**Banjara Hotels** will soon be offering to the public for subscription 420,000 equity shares of Rs 10 each at par. The company is setting up a five-star luxury hotel at Hyderabad on Banjara Hills, near Hyderabad airport, in collaboration with Holiday Inn Inc. of the USA. Construction work is proceeding apace and it is expected to be ready for receiving guests by March 1976. The project is estimated to cost Rs 1.89 crores. It will be financed by the share capital of Rs 70 lakhs and rupee term loans of Rs 1.19 crores.

**Uniloids Limited**, incorporated on the April 28, 1973, is setting up a plant at Hyderabad for the manufacture of drugs and pharmaceuticals such as Nicotinamide, PAS Sodium, Isoniazid and Thiacetazone. The company proposes to enter the capital market shortly with a public issue of Rs 18.50 lakhs.

The company has been pro-

moted by Dr. K. Anji Reddy, Mr D. Kamalakara Reddy, Mr P. V. -Krishna Reddy, Mr V. Lakshminarayana Rao and Mr M. Ramana Reddy.

The project cost has been estimated at Rs 82 lakhs. This is proposed to be financed by a share capital of Rs 32 lakhs, Rs 8 lakhs from the promoters, (Rs 5.50 lakhs reserved for allotment to Industrial Development Bank of India (IDBI) and Andhra Pradesh Industrial Development Corporation, and Rs 18.50 lakhs to be issued to the public), term loans from IDBI (Rs 35 lakhs) and the Andhra Pradesh State Financial Corporation (Rs 15 lakhs). The company has already acquired the land and construction of the buildings is in progress up. The site is favourably located in respect of availability of raw materials skilled labour and other facilities. Barring unforeseen circumstances, the production is expected to commence by the end of the year.

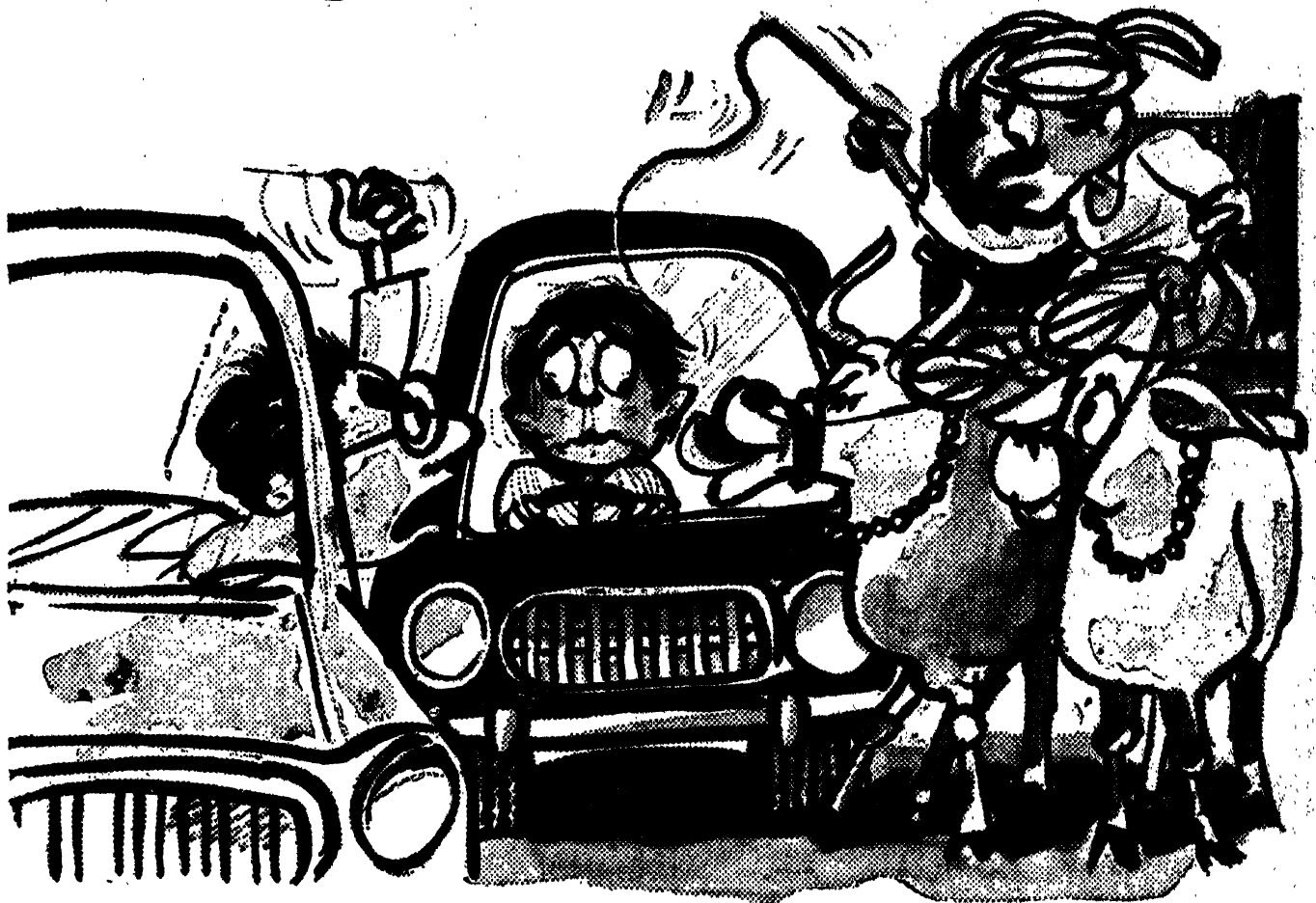
## Dividends

(Per cent)

| Name of the company             | Year ended         | Equity dividend declared for |               |
|---------------------------------|--------------------|------------------------------|---------------|
|                                 |                    | Current year                 | Previous year |
| <b>Higher Dividend</b>          |                    |                              |               |
| Hindustan Wire Products         | March 31, 1974     | 12.0                         | 10.0          |
| Hemalatha Textiles              | June 30, 1974      | 10.0                         | Nil           |
| Gwalior Sugar                   | June 30, 1974      | 5.0                          | Nil           |
| Madhavnagar Cotton              | June 30, 1974      | 12.0                         | 7.0           |
| <b>Same Dividend</b>            |                    |                              |               |
| Rajasthan Spg. & Wvg.           | September 30, 1974 | 7.5                          | 7.5           |
| Jaipur Udyog                    | June 30, 1974      | Nil                          | Nil           |
| Ralli Chemicals                 | August 31, 1974    | Nil                          | Nil           |
| Gujarat Machinery Manufacturers | September 30, 1974 | 10.0                         | 10.0          |
| <b>Reduced Dividend</b>         |                    |                              |               |
| Bharat Sugar                    | June 30, 1974      | 12.0                         | 20.0          |
| Deccan Sugar                    | May 31, 1974       | 12.0                         | 14.0          |
| Crompton Greaves                | June 30, 1974      | 8.0                          | 15.0          |
| Shree Akkamamba Textiles        | June 30, 1974      | 12.0                         | 15.0          |
| Orissa Cement                   | December 31, 1974  | 10.0                         | 20.0          |
| Upper Doab Sugar                | September 30, 1974 | 12.0                         | 20.0          |

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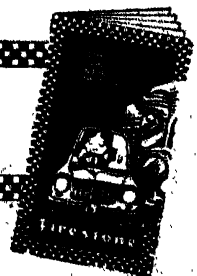
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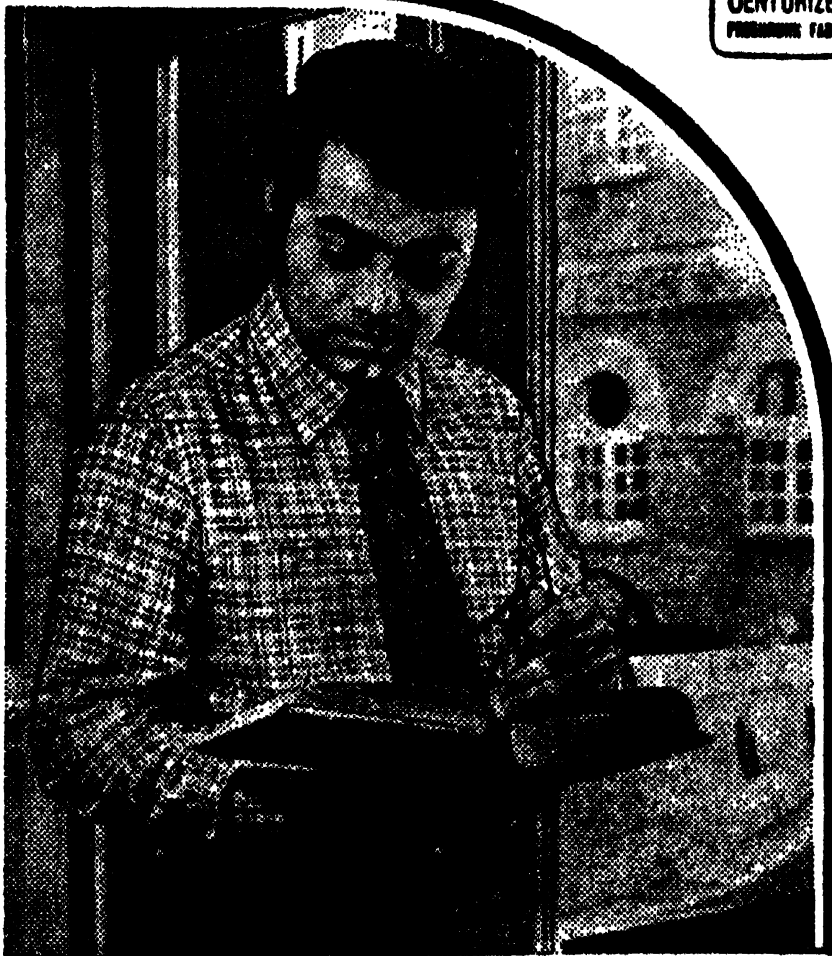
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## Chairman's Statement:



**H. T. PAREKH**

**ICICI Chairman**

**sees favourable pointers concerning  
India's investment and trade.**

- Rising capital investment in agriculture
- Short-term measures will not revive the economy
- Suggestions to improve growth rate
- Corporate operations

### Developments in 1974

In a sense, the year 1974 opened auspiciously in that the kharif crop for 1973 was good. Government, for a while, experimented with a policy of takeover of wholesale trade in foodgrains, but had to give it up. Procurement during the year was low, but from the point of view of the economy, this was not a disaster since what was not procured by the Government still remained with the farmers (provided consumption had not increased, as there is evidence to believe), adding to the stocks in the economy.

In other spheres of the economy, developments were not particularly encouraging. The Fifth Five Year Plan began in April 1974, but it was overtaken by inflation and high oil prices, so that it was still-born. In fact, the first year's outlay in the Government sector was nowhere near the required scale to achieve the Five Year Plan target. Investment in the private sector, though showing some increase at current prices, has apparently been stagnating in real terms because of lack of incentives and a clear Government policy on the direction of investment. Industrial production in 1974, according to available indicators, registered a growth of only 3 per cent over the previous year. The economy continued to face power shortages which have had an adverse impact on both agricultural and in-

dustrial output. Railways continue to suffer losses owing to the failure of traffic to rise at the planned rate, but perhaps much more because of railways' own internal difficulties.

Credit squeeze, which has been applied in the organised banking sector since the last quarter of 1973, also hindered production to some extent in the absence of proper machinery to ensure regular flow of funds to the producing units. As a result of the squeeze, call money and bank lending rates reached levels which were unprecedented in the history of organised banking in this country. Nevertheless, inflation continued at the average rate of 2% per month during the major part of 1974. Certain other measures were also taken to curb inflation, but it remains to be seen whether they have, in any significant way, served the main objective of bringing down prices in the long run. One of the immediate adverse consequences of these measures has been their dampening effect on the capital market, especially on the new issues activity, which had provided important support to the investment climate during the first half of 1974.

The economic difficulties of India in 1974 do not, however, warrant any undue pessimism. While the country was, in some ways, overwhelmed during most of 1974 by the problems of shortage of essen-

tial commodities, inflation and consequent resources shortfalls, hopeful signs were not wanting as the year drew to a close. There have been some welcome signs of price stabilisation during the last quarter of 1974. While no dramatic changes are expected in the power position in the immediate future, there are indications of better and more efficient management of available supply. Though there was a setback to the 1974 kharif production due to inadequate rains, the country should be gathering a good rabi harvest in the coming months.

It is also necessary that we take note of certain new and favourable pointers concerning India's trade and investment. With the large increase in income from oil, the neighbouring economies of the Arab countries, Iran and Indonesia are bursting into activity. My visit during the year to two of these countries, namely Indonesia and Kuwait, gave me a first hand impression of the changes that are taking place in their economies and the opportunities that lie ahead for India. I am happy to note that our Government has had fruitful dialogues with countries like Iran, Iraq, United Arab Emirates etc. which open up promising prospects for mutually beneficial economic collaboration. Nearer home, in the Indian sub-continent itself, conditions of stability are emerging for the first time after independence, and the current year will see resumption of trade with Pakistan.

Indian enterprise, it is gratifying to note, has also been active abroad, seeking manufacturing and contracting opportunities in the neighbouring countries, reflecting its new-found confidence in its managerial and technical abilities. It is a good sign that India's exports of manufactured, particularly of non-traditional, items have expanded fairly rapidly in recent years. With the substantially expanded opportunities for mutual trade between India and its neighbours in sight, further

stimulus to India's industrial exports, and expansion of investment over a diverse range of complementary activities are now a distinct possibility.

Apart from these hopeful indicators, I would also mention, on the credit side, the pragmatic reshaping of economic policies of the Government. This is beginning to be seen in the recent months. Less reliance is being placed on price controls and there is a clearer stress on production growth.

### Rising Capital Investment in Agriculture

However, the presence of these favourable indicators does not by itself constitute a policy for investment growth. As has been happening for almost a decade now, the overriding consideration governing the investment levels has been financial stringency. Confronted with resource constraints, caused mainly by inability to control non-developmental expenditure, Government has slowed down investment in the public sector, infrastructure development and much needed expenditure on social services. This has retarded, in no small measure, the overall growth of the economy. Resource constraints have also come in the way of full-hearted implementation of regional development policy, despite certain commendable beginnings in this direction.

In this context, notice should be taken of increasing use of capital resources by the agricultural sector. The rising long-term trend in agricultural out-put, it has to be realised, has come about not so much by changes in organisational or tenurial reforms, as by increasing inputs into agriculture. Thus agriculture has become a capital-intensive activity, using more fixed capital in the form of irrigation projects, wells and pumps, many of them based on scarce power resources, and working capital inputs in the form of fertilisers and pesticides. While it is true that a large part of investment at the farm stage

is through direct financing by the farmers, it is also true that there has been an increase in bank finance to agriculture. Perhaps, the shortage of capital which the rest of the economy has been facing is partly due to the fact that agriculture now absorbs a larger amount of public capital than it had in the earlier years. Likewise, the shortage of power, which we notice presently, is, in part, attributable to absorption by agriculture of a fairly large part of power output.

Despite an apparent conflict between the claims of the agricultural and the industrial sectors, it is, in my view, one good augury in the present situation that investment in agriculture is being maintained at a reasonable pace, thanks to considerable generation of incomes and plough back of savings in this sector. We should keep up the tempo of investment in agriculture, and bank finance should continue to flow in adequate measure to this sector. If growth is to be achieved and the position of those below the poverty line is to be improved, agriculture must receive the first attention of Government. In fact, if, during the last three years of the Fourth Plan, foodgrain output had been achieved at the rate targeted in the Fourth Plan, Government would have had 25% more foodgrain output (or almost 75 million tonnes more of foodgrains over 3 years) which would have solved all our problems of inflation, of constraint of resources and of abysmal poverty.

Given the high growth rate in population, the country, which doubled the foodgrain production during the last 25 years—from around 50 million tonnes in 1950-51 to over 100 million tonnes at present—should plan for accelerated efforts in this direction and aim at a further doubling of food production during the next 15 years. The pace should really be set now; to make up for the shortfall during the previous Plan, the

rate of growth for food production during the Fifth Plan should be around 6% instead of 4.2% proposed in the original Fifth Plan document.

#### **Short-Term Measures will not Revive the Economy**

It is in finding an answer to the problems of resource constraints towards maintaining a steady upward momentum of investment in the industrial sector, particularly in ensuring achievement of our targets in the priority areas, that we need to do some fresh thinking.

Unfortunately, measures taken by Government show that it is overwhelmed by short-term problems and is not able to devote its attention to the more long-term problems of growth of the economy. Inflation, no doubt, is a major problem at present, but curbing inflation at the cost of investment growth causes a still greater problem of foregone production. Some of the measures taken by Government have deterred, instead of promoting investment and influenced adversely incentives to save and invest in the capital market. As an example, I would mention the restriction on dividends which was brought in (evidently as a measure balancing the compulsory deposit of wages and dearness allowance payable to labour) by Government mainly to contain inflationary forces; it has resulted, not altogether unexpectedly, in companies not being able to raise fresh capital on the market. This has, as is well-known, hurt the Unit Trust also requiring special corrective action by Government early in January this year.

I am suggesting a course of action which may sound inconsistent and heterodox in relation to the present thinking, but as Pandit Nehru used to say, it is dangerous not to take risks in a difficult situation, and we are in this position today. Inflation cannot be brought down instantly. It would be much more mature to plan to bring down slowly the rate inflation. It is within

such an immediate framework alone that a policy of growth can be established.

#### **Suggestions to Improve Growth Rate**

My first suggestion here is that we must find a solution to the problem of high costs of projects and the shortage of resources to implement them. Apart from the remorseless effects of inflation, changes in the project scales have also contributed to high project costs. In my view, the answer to this problem lies in a pragmatic scaling down of the size of some of these projects or their phased implementation, as the alternative is often that the projects may not be taken up at all or delayed even at the start.

Secondly, the country should assiduously cultivate trading and investment connections abroad, particularly with some of our capital rich neighbours, to minimise the initial burdens on the country's resources and endeavour to off-load the capital and power intensive activities to some of the capital and fuel rich countries. Fertiliser manufacture, where urea and ammonia products can be conveniently divided between India and its neighbours, is a case in point. It does not preclude India from later putting up the integrated facilities within the country.

Thirdly, a large amount of capital is locked up in projects which take a long time to complete. This represents a waste of resources, in the sense that projects go into production much later than they should have, and in the meanwhile the economy loses output or has to use scarce foreign exchange to maintain the supply of the product. It is desirable that Government lay down, both for the public sector and for the private sector, fairly specific time-limits for completing projects and provide them with all resources needed to complete the projects.

Finally, I believe the situation of high cost of today's projects and the handicaps

these new projects face in relation to older enterprises in the respective sectors, call for an enlargement of the present package of investment incentives. The need is all the more urgent in view of my earlier suggestion that we consider a phased implementation of projects, notwithstanding considerations of scale. I, therefore, suggest that Government seriously consider re-introduction of development rebate for a period of five years or so, at least in respect of priority industries. When the withdrawal of this incentive in the 1973 budget was announced, no one had foreseen such a steep increase in the cost of capital investment.

I am also inclined to suggest revival of two other incentive schemes, both of which have a bearing on promotion of new industrial investment. One of these is tax credit in respect of investments in the equity shares of new companies. This will, to some extent, contribute to a revival of interest in new capital issues. In order to enable a new unit to compete with established units, and to attract promotional and general investment interest in new projects, suitable excise duty rebates will also have to be considered. To have the desired impact on the supply of risk capital, it is only proper that we provide facilities by way of lower excise duties, to new industrial units during the first five years of production.

Apart from excise duty rebates specifically directed to new units, Government may also consider a general reduction in excise duties on selected items with a view to stimulating demand, and thereby industrial production and investment. In my opinion excise duties and other indirect taxes, levied at several stages, already constitute a significant component of the final product prices. I would suggest that Government review the entire structure of excise duties and suitably reduce their rates, so as to provide some relief to consu-



mers from the present high prices and to promote an adequate market growth of the industries concerned.

I am aware of the resource stringency faced by Government. The measures suggested here contain a built-in potential for larger revenues in the long run through larger investment and production. If, however, there is any apprehension of revenue loss, I see several avenues for recouping the resources.

To mention just one of these: I feel that Government must give up the principle of subsidising any individual sector in the economy. If subsidies have to be given, it should be done only through cross-subsidising within an activity, so that there is no need to use net Government resources on that activity. For example, at present, Government provides a subsidy of about Rs 225 crores per year for food distribution. While the need to protect the underprivileged remains and, therefore, the need to provide food-grains to them at low prices is urgent, it is desirable that the revenue lost through subsidising this sector is made up by Government selling food-grains at higher prices to people whose incomes exceed Rs 1,000 per month.

Controlling growth in public expenditure, collection of tax arrears, improving the performance of public sector undertakings are other well-known avenues for raising additional resources. These should be fully explored for ensuring sustained investment in the economy.

If the rate of growth is raised by these measures, the economy will be able to generate surpluses which can be used not only for accelerating the rate of growth further but also for improving the lot of the very poor. The demands on a poor economy like India's are multifarious. In a sense, it is an economic problem to allocate limited resources among diverse ends. But it also becomes, in India's context, a social and political problem. It requires wisdom

on the part of our policy-makers to ensure that they face up to the challenges before this country. I do hope that, in revising the Fifth Plan, the planners and Government will give the above considerations due weight.

### Corporate Operations

Coming to the operations of the Corporation, the demand for foreign currency funds was well maintained during the year and the Tenth Line of Credit from the World Bank is being drawn upon. Negotiations for a new line of credit from the World Bank are already under way and are likely to be concluded in the near future.

During the year under review, ICICI obtained the Thirteenth Line of Credit of DM 5 million from the Kreditanstalt für Wiederaufbau. Negotiations are nearing completion for another line of credit of DM 7 million. The Fifth sterling loan of £1 million from the U.K. Government was also received through the Government of India. The Industrial Development Bank of India provided the counterpart funds against the Fifth U.K. loan. I would like to thank the World Bank, the KfW, the UK Government and the IDBI for the continued confidence they have shown in this Corporation. I also thank the Government of India for providing the required guarantees.

Due to worldwide inflation and uncertain and fluctuating market conditions prevailing throughout the year, circumstances were not favourable for fresh borrowing in the Euro-currency market. Avenues of raising additional foreign currency resources are, however, receiving our attention on a continuing basis.

In regard to rupee resources, we have called up the balance share capital of Rs 2.50 crores out of the Third rights issue of Rs 5 crores. ICICI made its Fifth debenture issue for Rs 9 crores in June 1974;

this issue, which like all previous issues was oversubscribed, is the largest single issue so far. Our thanks are due to the institutions, banks and individuals who helped us to make the issue a success. In early 1975, we propose to raise Rs 5 crores by way of debentures to finance our rupee operations.

### Operations

Net sanctions made by the Corporation during 1974 amounted to Rs 62.72 crores (against Rs 59.27 crores in 1973). Of these, an amount of Rs 51.71 crores was in respect of 120 specific projects. The total cost of these projects, when completed, is estimated at Rs 534 crores (including Rs 153 crores for working capital requirements). This cost is proposed to be met by Rs 79 crores share capital (Rs 73 crores ordinary and Rs 6 crores preference), Rs 217 crores long-term loans and debentures, Rs 11 crores deferred payments and Rs 227 crores cash accruals, bank borrowings, unsecured deposits etc. The total turnover of these projects, in a year of normal production, is estimated to amount to Rs 459 crores.

### Other Activities

Among Corporation's other activities, I should touch upon two new areas of interest which received our attention in 1974. For nearly two decades ICICI had been engaged in the financing of industrial projects and their successful completion but little was known about the socio-economic impact of these projects on the life style of the people immediately affected by them. As part of our continuing interest in these problems the Corporation has brought out a publication containing a study of the impact of the Gujarat State Fertilizers Company on a predominantly agricultural, traditional community.

Another area of activity in which this Corporation took some interest during the year was the promotion of rural development. The Corpora-

tion agreed to support a scheme for setting up lift irrigation schemes and allied activities in rural areas in Osmanabad district, Maharashtra. Under the proposal, ICICI will provide a small grant initially, and other financing, not exceeding Rs 5 lacs in all, to a Land Institute set up for this purpose.

In addition to the North Eastern Industrial and Technical Consultancy Organisation (NEITCO), in the setting up of which we were associated, ICICI support has already been extended to the formation of a new consultancy organisation in Bihar—The Bihar Industrial and Technical Consultancy Organisation (BITCO). Two other organisations in formation, which will receive ICICI support are: one in Uttar Pradesh and another for the States of Andhra Pradesh and Orissa.

Finally, I would like to mention that this Corporation has continued to receive devoted service from its staff; I take this opportunity to express my sincere thanks to them.

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# RECORDS AND STATISTICS

## Charter of demands

ON BEHALF of the people of India in general and the non-communist opposition parties—the Congress-O, the Bhartiya Lok Dal, the Socialist Party the Bhartiya Jana Sangh, the DMK, etc.,—in particular, Mr Jayaprakash Narayan presented on March 6 a charter of demands to the Speaker of the Lok Sabha, Mr G. S. Dhillon, and the Chairman of the Rajya Sabha, Mr B.D. Jatti.

### Withdrawal of Emergency

The charter called for immediate elections in the states of Bihar and Gujarat and withdrawal of emergency, the Maintenance of Internal Security Act, the Defence of India Rules and the other laws which curb civil liberties. Among other things, it also demanded reconstitution of the Election Commission into a multi-member body composed of persons of indubitable integrity; inclusion of expenditure incurred by political parties in the returns of individual candidates; immediate implementation of the recommendations of the Santhanam Committee on corruption; appointment of judicial tribunals with adequate powers to inquire into allegations against persons occupying high positions, including the prime minister and chief ministers; enactment of a law requiring of holders of public office to declare their assets immediately on assumption of office and periodically thereafter; accord of the highest priority for the achievement

of universal primary and adult education; and concerted measures for containing unemployment.

The following is the text of the charter of demands:

We, the people of India have gathered here to express solidarity with the struggle of the Bihar people which has come to symbolise people's aspirations all over the country. When basic principles of public life and good government are allowed to be trampled it is the people's duty to protest. We march today to seek justice and preserve democracy.

We pledge ourselves to a total revolution in society which will create a new order of social and economic equality, genuine democracy, and moral values within the Gandhian framework.

### Cherished Objectives

In order to advance towards the achievement of these cherished objectives, we focus attention on the following urgent demands:

*Fresh Elections in Bihar and Gujarat:* The legislative assembly of Bihar has forfeited the confidence of the people of the state. The assembly is fearful to contact with people. It barricades itself behind fences and bayonets. It has long since ceased to beat with the pulse of the people. It upholds a government that has misadministered the state and has trampled under foot the cherished rights of the people.

Far from stopping maladministration and widespread corruption in the government, the Bihar Assembly has unhappily become a party to them. The political sovereign, the people, have for long demanded dismissal of the

legal sovereign that now usurps authority.

In Gujarat, the state government was overthrown and the assembly dissolved nearly a year ago in the wake of a people's movement. But free elections are yet to be ordered. Therefore our first demand is that the government in Bihar be dismissed and its assembly dissolved and fresh elections be ordered at an early date in Bihar as well as Gujarat.

### Socio-economic Goals

*Securing the Socio-Economic Rights of the People:* The government's ruinous policies have led to economic stagnation on the one hand and increasing poverty, soaring prices and growing unemployment on the other. Non-availability of essential commodities has become a permanent feature of the lives of the weaker sections. Nearly 60 per cent of the population lives in conditions of semi-starvation and their number is increasing at an alarming rate. social inequalities are increasing.

The vital social and economic rights of the people have to be secured urgently and the following steps must be taken for the purpose ;

1. Provision of the basic necessities of life should be ensured to the weaker sections particularly the poorest 60 per cent of the population at prices within their reach.
2. Prices of essential goods should be related to costs and there should be a reasonable balance between agricultural and industrial prices. Prices should be stabilised and price rise must not exceed the rate of increase in the national income.
3. Need-based minimum wages and incomes should be guaranteed to all.
4. Economic inequalities should be minimised so as to bring them within reasonable limits such as 1 : 10.
5. Effective land reforms

ensuring equitable redistribution of land, securing of tenure based on the principle of land to the tiller, ownership of homestead land to the landless and assurance of fair wage to agricultural labour, a substantial part of which should be paid in kind.

6. Assurance of full employment. Development of agriculture and of the rural economy through the application of an appropriate technology should be given the highest priority for this purpose. Programmes of industrialisation should similarly be based on techniques and schemes involving massive mobilisation of manpower.
7. Creation of a regime of national austerity with the government to set the tone in this regard. This would involve a ban on import of luxury items and their manufacture at home.

### Denial of Rights

*Democratic Rights and Civil Liberties:* In violation of the spirit of the Constitution the government continues to maintain a state of National Emergency. The rule of law has been systematically replaced by the use of MISA, DIR and governance by ordinance. Democratic rights are being denied to large sections, legitimate and peaceful struggles by the people are suppressed by use of central and state police. In order to restore, defend and expand the content of democracy we demand:

1. Immediate withdrawal of the emergency as well as MISA, DIR and other laws which militate against civil liberties;
2. Granting full political and trade union rights to the teaching and non-teaching staff of schools, colleges and universities;
3. Granting of full political and trade union rights to workers and employees in the

commercial and industrial establishments in the public sector.

**Free and Fair Elections:** It is essential that Parliament and assemblies be made more responsive to popular aspirations. Elections must not be allowed to be influenced by use of official machinery, money power and recourse to force. We therefore urge that:

1. The unanimous recommendations of the Joint Parliamentary Committee on Electoral Reforms in which the members of the ruling party were also present should be implemented without delay.

2. The government must not be allowed to make major policy statements, sanction projects, lay foundation stones and announce other measures to tempt the electorate after elections have been notified.

3. The Election Commission should be a multi-member body manned by persons of indubitable integrity, such as judges of Supreme Court and the High Courts. They should be selected by a board consisting of the Chief Justice of the Supreme Court the prime minister, and the leader of the opposition (or a representative of the opposition acceptable to all groups).

4. Political parties must be required to submit election expense returns. Expenses incurred by parties on individual candidates including the general party programme should be included in the returns filed by candidates.

5. Use of radio-TV, government vehicles, aircraft and other government apparatus for party purposes should be forbidden to the ruling party except on terms of parity with opposition parties.

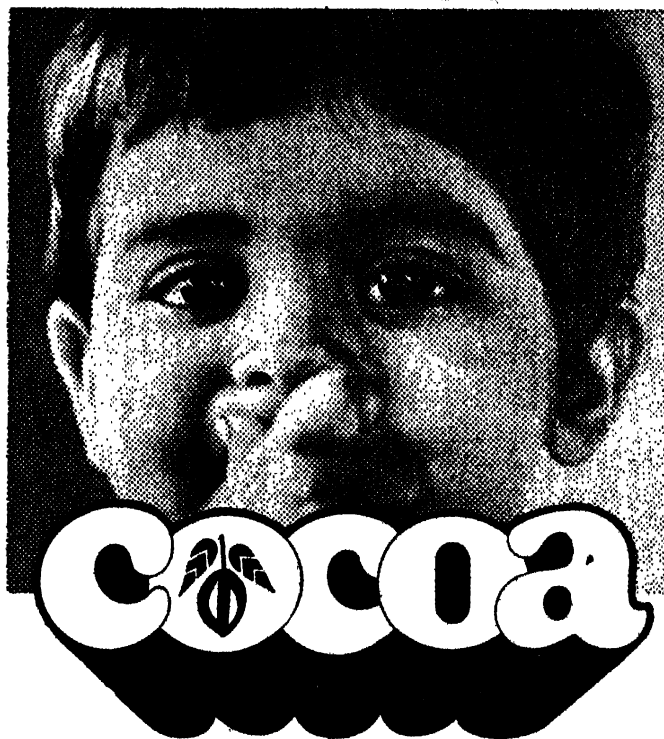
6. Prohibition should be enforced a week before and on the day of polling.

7. On polling day, all vehicles including private cars, excepting those engaged in essential services, must be off the roads.

8. Counting must be done boothwise; the ballot paper recount of each polling station

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should be publicised immediately after polling; and only one ballot box instead of three or four should be made available at every booth with stand-by arrangement for any contingency.

9. The accounts of total ballot papers polled or otherwise used, including the numbers of the first and last ballot papers in each polling station, must be made available to the agents of all the contesting candidates in the polling station concerned.

10. The age of voting must be lowered to 18 years.

11. The right of recall should be provided in the Constitution.

**Decentralisation of Political Power :** In view of the growing centralisation of power and the destruction of democracy at the grassroot level by the government, it is necessary to provide constitutional guarantee for genuine self-government by decentralisation of powers and their effective distribution among gram panchayats, zila boards, states and the centre.

**Educational Reforms :** 1. Education must be the instrument of the creation of a society based on the ideals enshrined in this charter, and should lead to modernisation instead of westernisation;

2. Effective steps to raise the quality and content of education in keeping with national requirements. The present pattern must be revised at every level;

3. Vocationalisation of education from the secondary stage coupled with a system of economic planning guaranteeing employment. A university degree should not be a requirement for any but academic jobs;

4. Highest priority to achieving universal primary education and universal adult education within five years;

5. Check on interference by the government in educational institutions. The management of these institutions

should ordinarily be entrusted to their respective teaching staff, along with democratic student participation.

**Eradication of Corruption :** Political corruption is eating into the vitals of our political life. It is disrupting development, undermining the administration and making a mockery of all laws and regulations. It is eroding people's faith and exhausting their proverbial patience.

In order that public life is cleansed of this cancerous malady, we demand:

1. Appointment of high-powered judicial tribunals with powers to enquire into allegations against persons in high positions, including the prime minister and chief ministers. In cases where charges of corruption are substantiated prosecution of the persons concerned should be obligatory. In all cases reports of enquiries should be published;

2. Implementation of the recommendations of the Santhanam Committee regarding allegations of corruption. In

case of doubt whether there is prima facie case for an enquiry, the matter should be determined by a judge of Supreme Court or High Court or by judicial tribunals where such tribunals independent of the executive and with adequate power exist;

3. A law should be framed requiring all holders of public office to declare their assets immediately on assumption of office and periodically thereafter.

## Mohan Dharia's statement

EXERCISING HIS right to make a statement in Parliament following the Prime Minister, Mrs Indira Gandhi, dropping him from the union cabinet on March 2, for his advocacy of a dialogue between the government and the parties in the opposition and Mr Jayaprakash Narayan, Mr Mohan Dharia asserted in the Lok Sabha on March 5, that his above plea was in conformity with the accepted policies of the party as well as parliamentary democracy. The former minister of state for Works and Housing, assailed the Prime Minister for not fulfilling the promises made to the electorate in the last general election and vehemently criticised the attempts of the Communist Party of India (CPI) to trade in the difficulties of the Congress. He also emphasised the need for the administration absorbing certain ethical norms and becoming responsive to the urges and grievances of the people. In any slowing down of these basic values, he stressed, the democratic system lost not only its vigour but also its face. "To adopt a callous attitude towards rising doubts in the public mind is easy but to ignore them is very dangerous," he added.

The following is the text

of Mr Mohan Dharia's statement in the Lok Sabha on Wednesday:

Mr Speaker, I rise to discharge a painful parliamentary duty which is cast upon me. It cannot be a pleasure to make this personal statement to explain the situation in which I resigned from the Central Council of Ministers. I am on my legs with full sense of responsibility and accountability towards this august House and to the people of the country. Sir, to make my statement explicit to the honourable members of this House, I reproduce from the Prime Minister's letter of March 1, 1975, received by me at 1.15 p. m. on March 2.

"I have been astonished to read newspaper reports of some of your speeches and also your reply to the letter of the Maharashtra Pradesh Congress Committee. It is obvious that your views on this issue are not in conformity with the thinking of the Congress Party. If you had any doubts was it not your duty to convey them to me? In the circumstances it is not proper for you to continue in the Council of Ministers. I am informing the President accordingly". After the receipt of this letter, I immediately sent my letter, of resignation to the President which is as follows:

"I have just received a letter from the Prime Minister, copy of which is attached herewith. Had the Prime

Minister shown the courtesy of indicating me her intention, either directly or indirectly. I would have immediately and willingly tendered my resignation. This letter of mine may kindly be treated as my resignation from the Council of Ministers of the Government of India. I will offer my comments in this matter either through a statement to be made in Lok Sabha or through a press conference".

Sir, Broadly I will dwell on the points raised in the Prime Minister's letter with other related circumstances."

### Critical Times

Sir, we are living through critical times. The nation is facing unprecedented problems; the economic, social and political situation is in a state of ferment. I am fully convinced that I have to respond to this situation in a restrained manner. I was astonished and pained to read from the letter of the Prime Minister that I have not conveyed my differences of views to her. It has also been said that I do not share the policies of the Congress Party. I have not been able to understand the basis of these conclusions. Just to put the record straight I want to state that I have used the party forums and other avenues to make my view known to the Prime Minister and other dignitaries of the party to which I have the honour to belong. As early as November 19, 1974 I had sent a letter to the

Prime Minister along with my note and requested her to take up the matter at the Narora camp with a view to evolving a time-bound programme of action.

I had suggested that integrated battle on social economic and political fronts will have to be fought if we are to succeed against the reactionary forces in the country. I have expressed these views in my statements, speeches and public utterances. My letter of February 26, 1975 to the Prime Minister further elaborates my views. I wrote this letter after I endeavoured to get an appointment since February 11 which could not materialize. I have made all possible efforts to keep her posted with my thinking. Even on most delicate and complicated issues I have ventured to express my opinion frankly to the Prime Minister. On October 7, 1974, I personally conveyed my feeling that the continuance of persons with dubious reputation in the ministry would erode the credibility of the government. I had no misgivings about the effect of my suggestions and requests, but in a democratic set-up, I thought it my duty as a colleague to suggest the way out. It is unfortunate that very often these suggestions were not given any consideration and were ignored. On the contrary it resulted in growing misunderstandings.

#### **Ethical Norms**

Sir, to me democracy does not mean a mere tool to acquire political power and to hold it. It is a system meant to involve people in determining and running the course of country's administration with a view to achieving the objectives of the Constitution and the struggle for freedom in which the whole nation joined.

The administration is expected to absorb certain ethical norms and should be responsive to the people's urges and their grievances. It is essential for the survival of this system. In any slowing

down of these basic values, the democratic system loses not only its vigour but also its face: To adopt a callous attitude towards rising doubts in the public mind is easy but to ignore them is very dangerous. With this understanding I had no other option

but to raise my voice at times even at the risk of being misunderstood.

It may be easy to suppress the dissenting voice but surely it does not help the democratic functioning. In democracy we derive our strength

and authority from the people. If this very source dries up, its decay is inevitable. The strength of this system is directly linked with the people's confidence in the honesty and integrity of those who are at the helm of affairs and also with their spontaneous

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# eastern ECONOMIST

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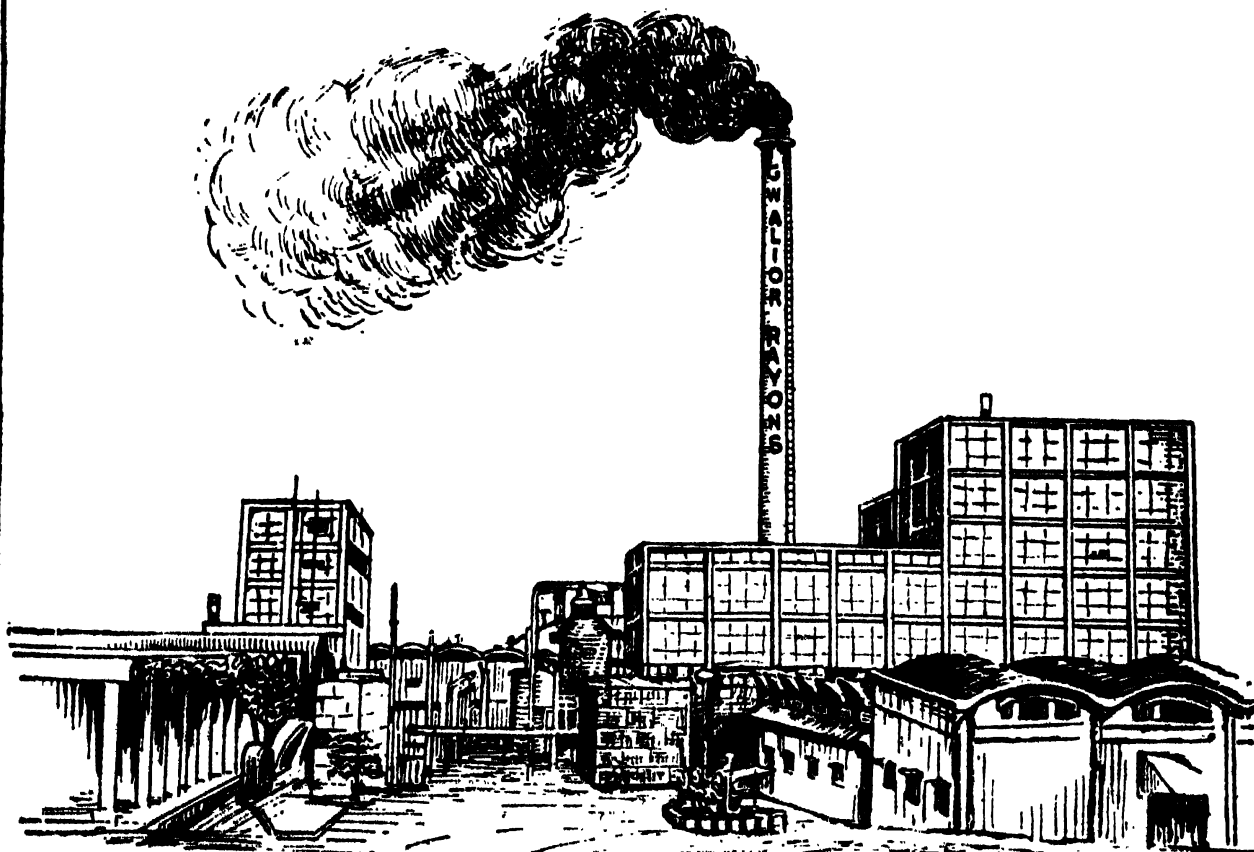
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# Ganesh runs amuck

has been carrying on a not-so-subtle war of nerves against the organized sector in that industry and, in particular, against firms in which there is foreign equity. Currently a committee, under Mr Jaisukhlal Hathi, which had been appointed by the government to advise it on the suitable regulation and sound development of the pharmaceutical industry so that it could effectively serve the cause of medicines for the millions, is about to complete its labours. It submitted recently its interim recommendations and is expected to be ready with its final report next month. The minister concerned, it seems, is not only not prepared to wait for the committee to conclude its work but is keen on queering the pitch for it.

For those who have been watching the activities of Mr Ganesh in this context, the conclusion is hard to resist that he is using all the means available to him to build up a cold war atmosphere in which it might be easier for him to pursue objectives which are all too obvious. A number of so-called seminars had been got up in the recent past to make it appear that there was a considerable body of informed opinion which was becoming more and more uneasy about the alleged domination of the pharmaceutical industry by multinational firms. Nondescript champions of the 'Indian' sector vs the 'foreign' sector, the decentralized sector against the organized sector or the public sector against the private sector, had been put up to plead for more stringent control over firms having some foreign equity or management or even the larger, wholly Indian-owned firms, in order to ensure that their further growth was virtually stopped or perhaps even their present functioning curbed or disrupted. Meanwhile, the minister had been creating opportunities for himself in the press or parliament to hurl threats, both vague and not so vague, against the 'multinationals' or other 'undesirables' in the pharmaceutical industry. Reports in fact are being circulated in the press that the Hathi committee in its final report will be recommending by a majority view the nationalization of pharmaceutical firms with foreign participation in their equity or management.

Here it is necessary to emphasize the fact that the Hathi committee is no innovation of the present minister of state in charge of Pharmaceuticals, who arrived at that post only recently. It is therefore quite despicable on the part of Mr Ganesh to attempt to convert this committee into a creature of his. Rightly or wrongly an impression has already gone abroad that the minister has been taking an improper interest in the progress or course of the deliberations of this committee and that he has been using his political influence or official position to ensure that his own purposes, prejudices or preconceived notions are served. Quite clearly, this is an unfortunate situation which only a wildly irresponsible minister could have allowed to develop for, apart from anything else, the suspicions or apprehensions which have been aroused, must necessarily come in the way of the Hathi committee's recommendations being evaluated in a context free from misgivings about the motives that may have been at work.

It is a familiar fact of politics or government in our country that, from time to time, some particular industry is picked out for the predatory ministrations of demagogic forces. There were years, for instance, during which the cotton textile industry was singled out for attrition. The result was that, in a period when the Indian textile industry had great opportunities of expanding and modernizing itself into one of the world's great textile industries, both capital and enterprise were discouraged from labouring for and sustaining its growth. Similar vandalism was also suffered by the sugar industry and this very nearly brought it to the brink of financial and even physical collapse. It seems to us that today it is the turn of the pharmaceutical industry to be chosen for the pillory. Thanks to political accidents or errors of judgment, the one minister, who is most unsuited to have anything to do with policy-making for Pharma-

FOR THE past many weeks the minister of state in the ministry of Petroleum and Chemicals, Mr K.R. Ganesh, who happens to be in immediate charge of government policy for the pharmaceutical industry,

## eastern ECONOMIST

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ceuticals, has been placed in a position to play mischief or perhaps play havoc with this portfolio. Not surprisingly, then, avoidable and positively harmful tensions are being created in an industry which greatly needs a period of tranquil progress to be able to serve more adequately or effectively the millions of people who must have the benefit of modern medicine in steadily increasing measure. It is always open to the government to have dialogues with the industry or any of its individual parts on all issues of public interest arising out of its current operations or its plans for the future. In fact it is essential that a dialogue of this kind must be a continuous transaction and, if a body such as the Hathi committee could serve any useful purpose, it would be by helping to frame fruitful guidelines for this dialogue. It is therefore nothing short of tragic that a minister, whose political antecedents are far from reassuring and whose activities in the government or outside have always been a source of anxiety for many of his own party-men, should be enjoying so much freedom to pervert policy-making for the pharmaceutical industry at a critical point in its further growth in the service of the people.

It can of course be nobody's case that this industry should be immune to government regulation. On the contrary, the government will be failing in its duty if it does not watch over or enforce the public interest in increasing the availability of a widening range of essential drugs or their formulations at reasonable prices and with sufficient guarantee as to their authenticity, safety and efficacy. This is a task tremendous in the two-fold sense of being tremendously difficult as well as tremendously important and it is only at the people's peril that the government may permit Machiavellian minds to meddle with it. There is ample room in the expanding pharmaceutical industry for all its legitimate constituents — legitimate in the sense that they have something to contribute to the people's need for proper medicines at fair prices—to play their respective roles with all the dynamism that each of them may be capable of. The government undoubtedly has a duty to see that there is fair competition within the industry, that all parts of it have access to the resources they need and can utilize for the

progress of the industry and the good of the public and that nothing is allowed to be done to any part of the industry which may have the result of prejudicing the orderly expansion and diversification of production for drugs and pharmaceuti-

cals according to internationally accepted standards of research, packaging, marketing, and quality control in all its aspects. The people's medicine is not for brewing in the witches' cauldron of political adventurism.

## Role of big houses in West Bengal

IN HIS inaugural address at the annual general meeting of the Bengal Chamber of Commerce and Industry, held in Calcutta on February 21, the West Bengal chief Minister, Mr Siddhartha Shankar Ray, strongly defended the role of big business houses in developing the state's economy and disclosed that he was taking a special interest in providing them with facilities and incentives in order to enable them to play their part. He declared that those who wanted to keep the monopoly houses completely out of the state's industrial activity were not being pragmatic. He said that the implementation of the Monopolies and Restrictive Trade Practices Act had affected West Bengal since this state had not been able to find any alternative entrepreneurship. Mr Ray further observed that when he talked to local entrepreneurs about investment of even Rs 10 crores, they "shake in their shoes". He, therefore, justified the steps that his government had taken in pressing New Delhi to exempt the big business houses from the provisions of the MRTP Act.

The chief minister revealed that in the last two years 29 companies, whose expansion programmes would have been restricted under the MRTP Act, had been granted licences and letters of intent. He added that he was taking care to ensure that these companies speedily implemented their projects. Mr Ray highlighted the industrial progress that West Bengal had achieved since his ministry came into existence. The state received in 1974 a record number of industrial licences and letters of intent aggregating to 106 and 93, respectively. Between January 1, 1966, and March 31, 1972, altogether 1,468 new companies were registered in

West Bengal, but this figure rose to 1,472 between April 1, 1972, and December 31, 1974. In the latter period, 12 large and medium industrial projects with a capital of Rs 91.53 crores had been commissioned. The number of small-scale industries in the state also rose impressively from 18,490 in 1970 to 48,000 in 1974.

It is, of course, true that Mr Ray's ministry has been trying its best to accelerate West Bengal's industrial development. But many impediments and uncertainties continue to stand in the way. The fact that the chief minister has been able to secure a large number of licences and letters of intent will not by itself help to promote the growth of industries unless they are assured of adequate supply of power and other essential facilities. Mr Ray quoted statistics to show that power generation was improving. But there is still a great deal of anxiety among entrepreneurs that in the coming months the problem would assume serious proportions. The state has already incurred a heavy loss in production due to shortage of power. As Mr D.P. Goenka said in his presidential address at the above-mentioned meeting, "on account of unscheduled and extensive load-shedding, the loss of jute mill production in terms of value was Rs 18.1 crores from January to March, 1974, on top of the loss of more than Rs 40 crores in the preceding two years. Engineering units lost production valued at Rs 34 crores during the same period, over and above the loss of Rs 57 crores suffered in the previous year. The suffering of other manufacturing units was no less disquieting and it became increasingly difficult to keep the wheels of industry moving until power rationing was introduced in West Bengal".

Mr Goenka made some suggestions to solve the problem such as the timely implementation of power projects, construction of transmission lines and reduc-

tion in the gap between the rated capacity and the actual generation of existing units. He also stressed the need for substantially improving the performance of thermal stations by ensuring the availability of spares and components, better management, and adequate supplies of the required quantity and quality of coal. The Chamber's president also requested the chief minister to assist the Calcutta Electric Supply Corporation in expediting its expansion programme. Apart from these measures, the government of West Bengal should assess the state's power requirements on a long-term basis and take effective steps to plan for its generation. The Barman Commission, which recently enquired into the power situation in the state, is understood to have made many proposals for reorganising the power department and for augmenting production and distribution of power, but the state government continues to keep its report confidential. The state government and the Planning Board should have frank and frequent consultations with the chambers of commerce and other industrial associations and seek their advice and assistance in tackling the power problem.

Another impediment to West Bengal's industrial growth is the credit squeeze. Mr Goenka dwelt at length on this issue and pointed out some specific examples of industries suffering hardship due to the lack of credit. "The export-oriented jute industry which suffered from power cuts and prolonged uneconomic working," he said, "has been hard hit by the credit squeeze and has even experienced difficulty in buying raw jute for lack of funds; a number of engineering units have been forced to curtail production and cancel export orders owing to their inability to maintain a minimum raw material inventory because of a sharp reduction in their overdraft facilities; flour mills which have to pay in advance for the wheat allotted by the Food Corporation of India, the price of which has gone up by 140 per cent, are nonetheless required to hold stocks of finished products for long periods owing to delays in the lifting of flour by government permit-holders, which strains their cash flow position severely." It is true that the impact of credit restrictions is felt all

over the country. But since West Bengal's economic development has considerably lagged behind other states, the government of India and the Reserve Bank should see to it that industries in this state are not hit hard due to the lack of credit.

Mr Goenka also referred to the obstructionist role of trade unions. He said that the jute strike had caused "incalculable harm" to industry and workers and avered that it was "extremely disturbing" that in spite of the existence of an elaborate industrial relations machinery, trade unions had chosen to strike at a time when the country was passing through an acute economic crisis. But strangely Mr Ray did not refer to the jute strike. He warned employers against encouraging inter-union and intra-union rivalry and asked chambers of commerce to use their influence to stop such practices. But the state government also should deal firmly with those who incite workers for political purposes and see to it that trade unions strictly observe the sanctity of agreements.

Mr Ray expressed his anger and annoyance at the conduct of certain employers who had neglected and even destroyed tea gardens in north Bengal in

their anxiety to earn quick profits. It is certainly regrettable that some employers should be so indifferent as to cause damage to tea gardens. But is not government also responsible for creating this situation? It has been known for a long time that many tea gardens in north Bengal had fallen seriously sick due to various reasons but neither the central government nor the government of West Bengal has taken effective steps to deal with this problem. It is necessary to deal with their difficulties realistically and at the same time to take care that more tea gardens do not fall sick. It is true that the industry was able to secure better prices in 1974 but, as Mr Goenka said, "one year's favourable price factor however does not indicate the industry's long-term prosperity".

Mr Ray's speech at the Bengal Chamber's meeting showed a new awareness on the part of the state government of the urgency of tackling the state's problems of industrial development and it is hoped that in the coming months the chief minister will continue to make energetic efforts in cooperation with the private sector to impart a strong stimulus to the rapid revival of West Bengal's economy.

## Search for entrepreneurs

THE SEMINAR on promoting entrepreneurship in the eastern region, which was held in Calcutta on February 1, made a number of recommendations for the development, diversification and dispersal of industries, but hardly any new points emerged from the discussion. The seminar emphasised the need for identifying prospective entrepreneurs, publicising the incentives offered for setting up new industries, improving the availability of power and infrastructure facilities, and bringing about effective cooperation between the large and the small units. It could have been more specific in its proposals especially in regard to the role to be played by the governments of the eastern region in promoting the spirit of entrepreneurship. The state governments, especially of West Bengal, have been persistently

complaining about the indifference of the government of India towards the development of the eastern region. In fact, it has been even suggested that New Delhi has been deliberately discriminating against this region in sanctioning industrial licences, in locating public sector projects, in disbursing loans and grants, and in various other ways.

It is, of course, true that the centre has not given adequate attention to the problems of the eastern region, but how far have the state governments themselves taken the initiative in promoting the growth of entrepreneurship? The seminar complained that there were no reliable data about the potential of the eastern region and that new entrepreneurs in most cases were ignorant of the various facilities available for setting up new units. If, therefore, the spirit of entrepreneurship is to be seriously and systematically fostered in the eastern region, the state governments themselves ought to adopt a

dynamic approach to this problem. It remains to be seen to what extent they will cooperate actively with the AIEI in working its scheme for promoting entrepreneurship.

The Entrepreneurship Development Service (EDS) of the AIEI will offer two kinds of facilities. First, it will help entrepreneurs to prepare feasibility studies and project reports in the form required to obtain quick technical and financial approvals. Secondly, it will assist in processing project reports with banks and other financial institutions. Besides, the EDS will offer guidance in conducting market surveys and on production processes. The EDS, indeed, is well equipped for performing these tasks since the membership of the AIEI at present covers practically all the major engineering units in the country both in the private and the public sectors.

The speech of Mr K. Hartley, chairman of the AIEI (eastern region), at the inauguration of the seminar, highlighted the important role played by the entrepreneur in the economic development of a country. He said, "The growth of entrepreneurship is one of the most essential elements in promoting the process of industrial growth. Modern economists who have studied the staggering rate of growth achieved in the advanced industrial countries in the course of the last half century or so have characterised the entrepreneur as the hero of the industrial process and have referred to his function of introducing innovations". He pointed out that there was "a marked lack of entrepreneurship" in the eastern region and suggested that industry and government must join hands in actively trying to promote it. Mr Hartley further observed that the large units in the IEAI were fully aware of their responsibilities in assisting the development of the small-scale sector and that they were keen on doing all they could in this sphere. But they can succeed in this task only if the official policies become truly production-oriented.

For the past several years, the large industries in the eastern region have been passing through a critical phase because of the severe power shortage, scarcity of essential materials, lack of demand for their products, and other causes. Even

the wagon industry on whose prosperity depends a large number of small industries is not being allowed to function in a healthy condition. This industry continues to operate with considerable idle capacity due to uncertain orders and unremunerative prices. The automobile industry is also unable to play its part in promoting the growth of ancillary industries because of lack of demand for its products. Dr Zainal Abedin, West Bengal's minister for Cottage and Small Industries and Public Undertakings, who inaugurated the seminar, said that it was the duty of the large and medium-scale industries to look after the small-scale entrepreneurs by giving them adequate orders in the matter of supply of components and ancillaries. But what are the large units to do when they themselves languish for want of orders?

Dr Abedin told the seminar that though the share of industrial licences issued to the eastern India states declined from 27.45 per cent in 1966 to 16.23 per cent in 1972, there was some improvement in 1974. In that year the number of licences issued to West Bengal was 106 compared to 45 in the preceding year. But it is not known how many of these licences have been effectively utilised. In any case, there is vast scope and urgent need to promote investment in the eastern region both in the public sector and in the private sector.

The establishment of a shipyard in Haldia will, of course, contribute a great deal to the growth of small industries. Mr Hartley said that "practically everything is available in this state which is needed for building a shipyard and a ship". Similar claims have been made by many other states also. But since the economy of the eastern region has suffered greatly due to prolonged stagnation and the problem of unemployment has assumed alarming proportions, New Delhi should favourably consider West Bengal's case for locating a shipyard in Haldia. The setting up of a free export processing zone at Dum Dum will also help to promote the growth of new industries. The AIEI and other industrial organisations in Calcutta have been urging New Delhi to expedite a decision on this project but there seems to be no indi-

cation of its coming into existence in the near future.

The seminar laid considerable emphasis on the need for the reform of education with a view to promoting the growth of entrepreneurship. Mr Hartley pleaded for "a reorientation in the system of education, making it an instrument that will prepare the youth to be self-reliant, to be prepared to take risks and to exploit the opportunities that the modern industrial system opens out". Many speakers at the symposium criticised the system of technical education prevailing in the country and suggested the need for greater co-ordination between the training institutes and the industrial units. It was stressed that fresh graduates from engineering colleges and technical schools should be provided with extensive practical training.

These suggestions need to be properly implemented but at the same time it is equally important to convince the educated young men that, in their own interest as well as of the country, they should take to self-employment rather than rush after jobs in commercial firms and government offices. The banks and the other financial institutions have been offering advice and assistance to those who wish to become self-employed in various fields. But these schemes seem to have made very little impact on the eastern region because of the lack of proper publicity and the failure of these institutions to display enthusiasm and initiative in promoting self-employment.

Among the other suggestions made at the seminar were the need to prepare an industrial map indicating the items which were required to be manufactured in the eastern region, wide publicity of success stories of self-employment, extension of the central incentive schemes for backward districts to more areas, and setting up in each state an information office where the prospective entrepreneurs would obtain authoritative guidance. Some of these suggestions are indeed useful and should be carried out. But ultimately the spirit of entrepreneurship can grow rapidly, whether in the eastern region or elsewhere, only when the government's economic policies become pragmatic and succeed in creating a climate of confidence conducive to the vigorous growth of the economy.

# FROM THE CAPITAL'S CORRIDORS

R. C. Ummat

## Budget Debate • Engineering Goods Exports • Alloy and Special Steels • Power Symposium

EVEN THOUGH the taxation proposals of the union Finance minister, presented to Parliament on February 28, have come in for a good deal of criticism at the hands of opposition members on the score that at least several of them would cast a fairly large burden on the nation, Mr C. Subramaniam has maintained that, by and large, they are non-inflationary. Replying to the general debate on the next year's budget in the Lok Sabha last week, he reiterated the resolve of the government to contain the prices spiral and asserted that it would continue its three-pronged attack on prices in the form of curtailing non-Plan expenditure of both the states and the centre, regulating bank credit and checking private consumption financed by "illegitimate money". Significantly enough, he revealed that the government would consider the demands for payment of further instalments of dearness allowance to its employees and a higher price for rabi foodgrains taking into consideration the impact they were likely to have on the price level.

### forthright statement

Characteristic of his forthrightness was Subramaniam's observation that if wage earners and government employees were to be called upon to make sacrifices, the producers of grains also would have to make matching sacrifices. He asserted that one could not ask for wheat prices to be raised to Rs 125-140 a quintal and at the same time tell government employees and wage-earners not to seek higher dearness allowance. The Finance minister warned that if the increases like the above were conceded, the deficit in the central budget next year was bound to go up much beyond the level of Rs 225 crores envisaged by him in his budget speech.

Referring to economy in governmental expenditure, Mr Subramaniam observed that the government had taken all measures to cut non-Plan expenditure. The Plan expenditure, he added, had to be increased

to cater for the pressing requirements of the priority sectors, particularly agriculture and energy. The next year's Plan outlays on these two sectors, he revealed, had been stepped up by 39.3 and 55.4 per cent, respectively, compared to this year's outlays. This was despite the fact that the overall outlay on the next year's Plan programmes was being raised by only 23 per cent. Stoutly defending his budget proposals, Mr Subramaniam claimed credit for making the tax structure "discriminatory". Articles of essential consumption, he emphasised, had been left out from additional levies.

### incentive scheme

The Finance minister also justified the incentives he has given to the corporate sector for raising output, especially in the chosen four or five priority sectors the resources requirements of which were quite large. These, he stressed, were warranted in the overall interest of the economy. Mr Subramaniam repeated his warning that although prices of late had shown a downward trend, the government could not take a complacent view of this. Unless care was taken, inflationary tendencies could reassert themselves. Incentives for production, he urged, ought to be considered against this background.

The Finance minister derived a good deal of satisfaction from the appreciation in the external value of the rupee in the past six months by one per cent against the major currencies and by as much as four per cent against the US dollar. He read in this success of the anti-inflationary measures adopted by the government.

Mr Subramaniam did not rule out some concessions in his taxation proposals. Referring to the clamour for relief to the bidi industry, powerloom, and yarn and khandasari manufacturers, he indicated that proposals for concessions could be considered at the time of discussion on the Finance Bill. Another significant observa-

tion made by him was in regard to demonetisation of the rupee. Asked by Mr Indrajit Gupta (CPI) whether the government would consider demonetisation as a step towards unearthing black money, Mr Subramaniam cryptically remarked: "demonetisation is not talked about; when it comes, it comes".

Referring to external assistance, the Finance minister stated amid cheers: "We are not going to be beggars. The country could and should produce her own requirements." Self-reliance, he therefore added, had to be fostered.

In reply to the criticism from some members that the promises made by the Congress during the last general election had not yet been fulfilled, Mr Subramaniam pointed out that the Bangladesh war, the successive droughts and the spurt in fuel prices had resulted in a situation of galloping inflation. All efforts, therefore, had to be directed towards containing inflation; the old priorities had to be altered.

Encouraged by nearly 38 per cent increase in the exports of engineering goods this year, to approximately Rs 275 crores, which exceeded the target for the year by about Rs 15 crores, the union ministry of Commerce wants the engineering industry to set its sights next year much higher than proposed by the outgoing Chairman of the Engineering Export Promotion Council (EEPC), Dr B.V. Bhoota.

As against the target of Rs 300 crores suggested by Dr Bhoota, the Commerce minister, Prof D.P. Chattopadhyaya, desired, while addressing the annual general meeting of the EEPC here last week, that the target should be stepped up to Rs 350 crores, so that it should be possible to generate foreign exchange earnings from engineering goods exports to the extent of Rs 500 crores per annum by the end of the current Plan period, i.e. by 1978-79. The Export Production secretary in the ministry of Commerce, Mr S.G. Bose Mullick, even went further in his



luncheon address to the above meet and expressed the view that the target should be fixed as high as Rs 450 crores — 10 per cent of the current annual production of the engineering industry, including the small-scale sector, which is Rs 4,500 crores.

Against the over-optimism of the ministry, the outgoing EEPC president, however, thinks that exports of engineering goods next year may not grow at the same pace as they grew this year. The international situation, according to Dr. Bhoota is not now as promising as it had been till lately. He expected not more than 10 per cent growth in exports of engineering goods in 1975-76, primarily because the orders on hand and at the end of the current financial year were likely to be just about half of those at the beginning of this year (nearly Rs 300 crores). Even for achieving a target of Rs 300 crores, he emphasised that every concerted effort would have to be made to book new orders.

The above diversity of opinion apart, the union government is stated to be prepared to help the industry in stepping up exports to the maximum even if the added value criterion needs to be modified further. Recently, in the case of some products, it reduced the added value stipulation from 25 per cent to 10 per cent. Mr Bose Mullick indicated in his luncheon address that, if necessary, the above stipulation could be diluted further as the steel supply situation next year was expected to be quite easy. Prof Chattopadhyaya revealed in his address that attempts were being made to improve export credit. He also admitted that there was need to streamline procedures. The decision on cash assistance for selected exports, the minister indicated, would be announced soon. It is generally felt that our industry can take up turn-key projects abroad in a big way either on its own or through securing subcontracts from foreign parties.

Not only the domestic output of mild steel is expected to show a marked improvement during the current calendar year — in view of which, the secretary to the Steel ministry, Mr Wadood Khan, indicated recently that steel imports this year would be reduced by nearly one-third — the availability of alloy and special steels from indigenous sources too is anticipated to register substantial improvement. We produced in 1974 about 400,000 tonnes of alloy and special steels. The output this year is expected to go up to 500,000 tonnes. It will broadly match the anticipated requirements.

The radical change that has taken place

on the alloy and special steels front is attributed by Dr B.C. Jain, Managing Director, Bihar Alloy Steels Limited, Ranchi, to two factors — (i) very encouraging improvement in production at the existing manufacturing units, and (ii) the coming on stream of Bihar Alloy Steels. Of the aggregate anticipated output of 500,000 tonnes this year, nearly 40 per cent will be of high alloy categories at the Durgapur Alloy Steel Plant, the Bhadravati works, Mahindra Ugin, Bihar Alloy Steels and Firth India. The remainder 60 per cent will be the production of low alloy and carbon constructional steels at Rourkela, Bhilai, Durgapur and Jamshedpur integrated steelworks, GKW, Globe Steel, Mukand Iron and Steelworks and several "mini" plants. All the existing units, according to Dr Jain, are now working to 80-85 per cent capacity. The Bihar Alloy Steels, which went into production recently, would be producing this year nearly 25,000 tonnes of high grade alloy steel. Production to full capacity — 40,000 tonnes — will follow next year.

In view to the above, the plea of the alloy and special steels industry for a ban on imports of those categories of steel which will be produced within the country in adequate quantities, does not appear to be misplaced. In fact, if the automobile industry continues to suffer from recession, we might have some surplus alloy and special steels which would have to be exported. Owing to the recent decline in the international prices of steel — both mild and alloy — some incentives may have to be thought of, in the interest of exporting the surpluses, in the form of duty drawbacks on ferro-alloys and also to compensate for the high cost of power — an essential input for the alloy steels industry. The cost of power alone is said to have nearly quadrupled during the last two years from about six paise per unit to as much as 24 paise per unit. Significant incentives for exports would be necessary for nearly 70 per cent of the higher cost alloy steels. In the case of the lower grade alloy and special steels, they may not have to be large as our cost of production of these steels is not much out of tune with the international prices; in some cases, it is even lower than the global prices.

As a result of several steps taken by the union ministry of Energy to improve the performance of thermal power stations, generation of electricity by these units, specially in the DVC area, has shown significant rise during the current financial year. Between April and January, the improvement over the

corresponding period of last year was about five per cent. The improvement was particularly marked between September and January — approximately 13 per cent. It is intended to generate nearly 6,000 KWH per KW capacity. The steps which have already been taken include: (i) setting up of a cell in the ministry of Railways to keep a close watch over the movement of coal; (ii) checking the quality of coal both at the despatch and the consuming ends; (iii) establishment of a training institute at Delhi, in addition to the two already working at Neyveli and Durgapur, (another institute is proposed to be set up soon at Nagpur); (iv) creation of a spares and services division by Bharat Heavy Electricals Ltd for stocking critical spares and components for maintenance job all over the country; and (v) availing of the services of consultants who have been visiting the various power stations and assisting the authorities there, particularly in preventive maintenance. A standing committee has also been set up in order to exchange views between the indigenous manufacturers and their customers with the purpose of identifying improvements which can be effected in equipment designing, particularly taking into consideration the qualities of coal available.

### other recommendations

Several other recommendations have been made by a symposium held in New Delhi recently. Feeling that there was considerable scope for improvement in operation techniques and maintenance procedures at the power plants and appreciating the difficult oil situation following the hike in crude oil prices during the past two years, the symposium recommended among other things: (i) need to economise the use of oil; (ii) amending of the Boilers Act to reduce the frequency of statutory inspection in the case of large utility boilers; (iii) imposition of a penalty for non-confirmity of coal supplies to power stations to the given specifications and quality; (iv) development and use of erosion resistance materials for parts particularly subject to erosion; (v) delegation of both administrative and financial powers in an adequate manner to the authorities incharge of construction/operation of power stations consistent with the responsibilities they are called upon to discharge; (vi) provision of suitable incentives to operational and maintenance staff; and (vii) setting up pithead superstations to overcome the difficulties in wagon availability for transportation of coal. These recommendations are understood to be being vigorously following up by the ministry of Energy. Decisions on several of them are expected to be taken at an early date.

# ESCAP in Delhi : when neighbours meet

Hardev Singh

THE 10-DAY session of the UN Economic and Social Commission for Asia and the Pacific concluded in New Delhi on March 7, after adopting a comprehensive report on its deliberations. The 38-member UN body representing more than half of the world's population, bulk of it economically backward, will hold its next annual session in Jakarta, Indonesia, in February, 1976.

The executive secretary of the ESCAP, Mr J.B.P. Maramis, stressed that the attention of his secretariat will now be focussed on the implementation of the resolutions adopted at the New Delhi session, which among other things, proposed the setting up of a centre for the welfare of women, to be located in Iran. A draft resolution on the role of women sponsored by ten nations of the region, including India, Pakistan, Afghanistan and Iran, proposed that the centre could assist governments and non-governmental organisations in developing policies, strategies and programmes to strengthen the role of women in national development, especially among the deprived sections of the society. This resolution has been adopted, appropriately enough, in the International Women's Year. The Commission urged member governments to include in their development plans and programmes projects designed to train and equip women to make increased contribution to the social and economic development of the nation. It was suggested that the Asian plan for the association of women in the development process be integrated with the global plan of action which would be discussed and approved at the World Conference of International Women's Year at Mexico, towards the middle of this year.

### transfer of technology

The ESCAP reiterated the need to set up a centre for the transfer of technology. The offer of India to provide host facilities for the proposed centre was welcomed and it was proposed that a group of experts from the ESCAP region should prepare a plan for the establishment of the

centre. This plan might be ready for submission to the next year's session of ESCAP at Jakarta.

Though the countries of the ESCAP region are marked by cultural and political diversity, there is considerable similarity in their economies. Consequently developing countries have to depend increasingly on technologies which have been evolved in the region, and are suited to their needs and domestic natural resources. These technologies can be shared with one another and can promote the collective self-reliance of the developing world as a whole. This can come about only when the customary process of what can be called 'trading in technology', by which developing countries have to acquire technology from the highly industrialized ones, is replaced by a process of genuine 'technological cooperation' among developing countries.

### self-reliant growth

The Commission stressed that the adaptation of modern technology and the indigenous development of products and processes suitable for indigenous resources were vital to self-reliant growth. The uncritical use of imported technologies, with high costs of know-how licensing and patents had raised the cost of development. Research undertaken in certain developing countries has already given indications that an 'intermediate technology' suited to their existing stage of development could emerge out of traditional and modern methods.

Several delegates expressed grave concern over the slowing down in the growth of industrialisation that had been caused mainly by sharp price increases and shortages in the supply of raw materials, diminishing availability of adequate foreign exchange and restrictions on the transfer of technology. In the light of this situation, it was urged that there was a greater need to reinforce the efforts to share the existing technology in the region.

The resolution on the centre for agri-

cultural machinery was sponsored by Japan, Philippines and Thailand. Under the provisions of this resolution, immediate measures are to be taken to establish an institution to be known as the Asian Coordination Centre for Agricultural Machinery (ACCAM). This is regarded as the first concrete step towards what may usher in an agricultural revolution in Asia and the Pacific.

### necessary mechanization

Mechanization is often adopted in large agricultural operations, such as land reclamation, earth-moving and soil improvement. It is also found necessary in areas where expensive inputs can be used and multiple-cropping can be achieved. In these areas, it can even enlarge employment opportunities by increasing the intensity of farming through a package of equipment for ploughing, seed-bed preparation, disease control, harvesting, threshing and drying. It can also facilitate multiple cropping through cutting the time of operations.

With the spread of mechanization, there has to be provision for adequate servicing and spare parts facilities. This task will be simplified if equipment used is standardized and the number of models is reduced. Careful screening of imports, after pre-testing of the models under local conditions, can also help. In developing ESCAP countries, much greater innovative design, adaptation and improvement of the existing types of equipment, machines and implements are necessary. The proposed centre is likely to prove useful in this direction too.

Another resolution regarding research and training was directed primarily towards the four institutes already affiliated to the ESCAP. Three of these are the Asian Institute for Economic Development and Planning (AIEDP), based in Bangkok, Thailand; Asian Statistical Institute (ASI), based in Tokyo, Japan; and Asian Centre for Development Administration (ACDA) based in Kuala Lumpur, Malaysia. The

## POINTS OF VIEW

fourth is in the process of establishment, and is to be known as the Asian Centre for Training and Research in Social Welfare and Development, to be located in Manila.

The Asian Institute for Economic Development and Planning, Bangkok, was established in 1964 and is the oldest regional institute in Asia. With a life-span of 11 years, the Institute has trained participants from practically all member and associate member countries of ESCAP. Almost every year it has managed to organize a regular six-month course (progressively reduced to three months) on development planning, in addition to specialized courses of shorter duration. It has among its staff some of the most capable social scientists in the region. Over the years, the Institute has tried to adapt its training courses and programmes to changing needs and the present director intends to further strengthen his professional staff capacity gradually.

### extensive consultations

The Commission expressed its satisfaction that the Asian Institute for Economic Development and Planning had undertaken extensive consultations with the governments and national and international institutions in developing its guidelines. Such consultations had laid bare some problems of importance to the developing countries which included income generation for the poorer sections of the people in the rural and urban areas, lessening of the inequalities in personal income distribution, the special handicaps of the least developed countries, including the land-locked countries and the smaller island countries, and the need to harmonize the development plans of groups of countries.

The Commission noted with appreciation the government of Thailand's offer to extend host facilities to the Institute on a permanent basis, and to provide a piece of land in Bangkok and contribute 20 per cent towards the cost of the building for the Institute. By a resolution it has been renamed as Asian Development Institute.

The Asian Statistical Institute, located in Tokyo, was established as a UNDP project in 1970 as a result of an agreement entered into between UNDP and the government of Japan. The functions of ASI include training for professional statisticians for government services within the area. Over the years, the Institute

has organised a series of general courses of ten months' duration for participants from all over the ESCAP region. The duration of the course was proposed to be reduced to six months, partly because a ten-month course absorbed too much professional time. This step is likely to enable the faculty of the Institute to participate in more advanced courses and research activities. It was suggested that the Institute should lay more emphasis on training of trainers and preparation of training material so that member-countries could acquire the requisite expertise to organise their own individual training programmes.

Kuala Lumpur is the seat of the Asian Centre for Development Administration (ACDA), which started in October, 1973. It is, perhaps, too early to assess its activities. Member governments are expecting ACDA to take the initiative in organising meaningful training programmes in different ways and at different levels. There may be senior-level or middle-level resident courses on specific problems of development administration or country courses on general or specific problem areas.

The Asian Centre for Training and Research in Social Welfare and Development is yet to be established. The resolution adopted at the 1974 session of ESCAP recommending the establishment of the Centre, expressed growing concern among member countries about the social consequences of development and the need for well-designed programmes of action. The centre is likely to evolve measures to assist the underprivileged and deprived groups to become more

productive and self-reliant.

An important project which attracted attention of the delegates at New Delhi session was the Asian Highway. The Commission reviewed the progress made on the Asian Highway and appreciated the approval by UNDP of phase II of the project, which would last until the end of 1975. This phase is expected to consolidate the work already completed and includes the readjustment of alignment, data collection on roads, traffic and need for upgrading and improvement, and determination of the Asian Highway standards. The Asian Highway guidebook regarding the section between Vientiane and Singapore covering 3,000 kms., has been distributed on a world-wide basis and another map of the highway from the Turkey-Iran border to Pakistan-India border covering 4,000 kms., is ready for circulation. It is hoped that every effort will be made to prepare similar maps for the rest of the Asian Highway, such as the zone comprising Burma, India, Bangladesh and Nepal.

There was consensus among the delegations that the ESCAP was meeting at a crucial time in which prolonged world economic crisis as expressed in food shortage, sharp increase in oil prices and wide fluctuation of raw material prices have created enormous dislocations in most developing countries. There was, however, considerable determination among delegations to follow up with action-oriented programmes on the urgent problems of food shortages, population, industrial development, as well as economic cooperation.

## *Eastern Economist 30 Years Ago*

MAR. 23, 1945

Despite the laboured attempts by the Supply Department to prove to the world through subsidized and sponsored investigations that the war has accelerated Indian industrial development rapidly, the truth is slowly reaching the public that there has been very little progress. First, came the utterance of Dr John Matthai who pointed out that expansion took place only in a few existing industries which were working double and treble shifts and had exploited and used up their assets. Now comes the affirmation of Sir Jehangir Ghandy in respect of an important industry. Denying that the war had given a fillip to the iron and steel industry, Sir Jehangir said that, if the coal and transportation problems were normal and the

various dilatory government controls were not in operation, both their production and profits would have been substantially higher than they were now. This statement from one entitled to speak with full authority should dispel all illusions of our vast industrial expansion. No one argues that a few industries have not expanded during the war. But the contention has been that the expansion was largely confined to existing industries that the expansion was pitifully inadequate, that the government woefully neglected and failed in their task of furthering war effort and, finally, that no steps were taken to establish new industries of a type which would have served the country both at war and later at peace.

# Yugoslavia: pragmatism and progress

London

Josselyn Hennessy

## I Socialism Exploits the Market Mechanism

**President:** Marshal Josip Tito

**Population:** 21 Million

**Exchange Rate:** £=40.29 New Dinars

YUGOSLAVIA HAS come an extraordinary distance since World War II — from a heavily damaged, underdeveloped peasant country to a rapidly industrialising nation with one of Europe's fastest growth rates. Through pragmatism and a willingness to experiment, Yugoslavia has evolved a balance between central authority and decentralised initiative that reflects its unique economic and social character.

For centuries Yugoslavia has served as

in the continuation of rapid economic growth. Provided that economic and political institutions go on evolving with the pragmatic flexibility that has prevailed for the past 25 years, Yugoslavia should continue to enjoy a steadily rising living standard in a uniquely structured economy. A major facet of the economy — workers self-management — will attract increasing study by other nations, as the issue of worker's participation receives greater attention throughout the world.

Yugoslavia was created as a nation in 1918 from parts of the Austro-Hungarian and Ottoman empires, along with Serbia which had already gained independence from Turkey. For centuries, the lands that are now Yugoslavia were dominated by foreign powers. This history has contributed to the nation's diversity, but it has at the same time strengthened national unity, for struggle against foreign

—except agriculture — was complete. A Soviet-model plan of rapid industrialisation was launched, concentrated on heavy industry under highly centralised control. Every enterprise was assigned a production target and told where to buy its inputs and where to sell its output. In addition to its innate weaknesses, this system was at odds with the high priority given to unifying Yugoslavia's diverse peoples. The central planning directives conflicted with the constituent republics' desires to participate in decisions; yet attempts to allow for these desires within the central planning system led to bureaucratic sprawl and paralysis — and still left local initiative stifled.

A change began in 1950. Evolution of the economic system since then has sought to balance centralised control with decentralised initiative. An overall social plan specified broad guidelines and national goals, but vital decision-making is dispersed and the market mechanism is fostered. Within the guidelines, enterprises are free to decide quantity, quality and price, to choose suppliers and markets, to compete, and to fix policies on the distribution and reinvestment of net profits. Workers' self-management is central to this system of enterprise decision-making, and has proved one of this century's most interesting developments in labour relations.

## II

### Workers' Self-Management

Workers' self-management was instituted to counteract over-centralised bureaucratic socialism. Workers' councils, elected in every enterprise by secret ballot, are vested with the right to use the enterprise's fixed capital "on behalf of society". The directors and managing boards of firms, who supervise operations, are responsible to the workers' councils. The councils also control working conditions and decide how to allocate net profit. The councils' rights are narrower than those of private ownership, but extensive nonetheless. An enterprise, for instance, cannot sell its fixed capital to private persons, but it can and does plan how to expand its capital stock. And it can under-

# WINDOW ON THE WORLD

a bridge between eastern and western civilisations, and its people consequently have diverse cultural and historical roots. Politically, it is a socialist country with a communist government, but it favours a non-aligned course in world affairs. The economy operates like a free enterprise system — but without capitalists. The workers "own" the means of production through institutions of self-management, but the government actively encourages private foreign investment in joint ventures.

The inflow of foreign investment will continue to grow steadily in the years ahead. Cooperation with foreign enterprises through capital investment and transfer of technology will be important

domination has been the major force in modern Yugoslavia. During World War II, the forces under Marshal Tito succeeded in freeing the country from German occupation and thus created the foundation for their post-war political authority. The acceptance of the Yugoslav system by its people today derives in large part from the fact that national independence has been maintained.

Yugoslavia suffered massive property damage and population losses in World War II, and reconstruction was an urgent post-war necessity. The new leaders' socialist ideology favoured nationalisation, with close state control and supervision of economic development.

By 1948, state control of the economy

take to merge with another firm in the interests of efficiency.

All is not smooth sailing. Yugoslavia's system constantly faces the problem of balancing workers' control and participation with improved management. Similar problems exist throughout the industrialised world, but the need for good management is particularly critical in Yugoslavia because it is the key to badly needed productivity growth and thus to achieving the much desired growth of output and of income per head.

Workers' councils are expected to take account not only of their own workers' interests but also of society's, and conflicts do arise. Workers' self-management tends to maximise income per worker, by limiting investment out of retaining earnings or by limiting the number of workers. This puts the emphasis on short-run income rather than long-run growth and improved productivity. Management has nonetheless been able to increase investment because the supply of credit has been relatively elastic. But because the government has had only limited control over investment credit and over wages, chronic inflation has plagued Yugoslavia. Currently, a system of "social agreements" is being introduced in an attempt to create a viable income policy.

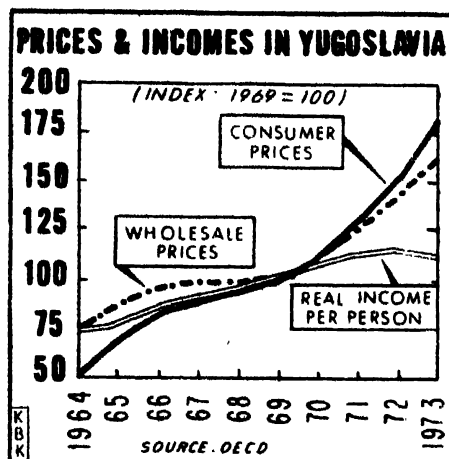
### III

#### Economic Achievements

The self-management system has worked tolerably and has proved compatible with rapid economic progress. Over the past two decades, Yugoslavia's real growth has averaged seven per cent per year — one of the fastest rates in Europe — and real income per head has trebled. Primary emphasis has been on developing industry, notably chemicals, electrical goods, and petroleum. Agriculture's share of total output has dropped from 38 per cent in 1953 to 19 per cent, but non-agricultural jobs have not been created fast enough to absorb surplus rural labour, and agricultural productivity remains low. To ease the pressure of domestic unemployment, Yugoslavs have been allowed to work in western Europe. But this is only a temporary solution. The big problem, as yet unsolved, is how to provide enough jobs to employ surplus rural workers productively, and to lure expatriate Yugoslav workers home. Measures to improve agricultural output are also urgently needed.

Various reforms in the past decade have strengthened decentralisation and the market system — which the Yugoslav authorities consider necessary if self-management is to work. These reforms are slowly building up a more rational economic structure. Growth of output

has become increasingly attuned to demand, both at home and abroad. However, inflation remains a problem, and the high priority given to rapid growth means that it will persist. Rapid inflation during past expansion periods has played havoc with the balance of payment and led to recurring devaluations and severe anti-inflationary measures.



However, provided that fiscal and monetary policies become more sophisticated and effective in controlling inflation, while letting market forces operate, continued rapid growth is probable. GNP in real terms may probably expand at an average six per cent per year during this decade.

Yugoslavia's fertile plains should support a growing and increasingly modern feed-livestock economy. But agricultural progress will be difficult in the less fertile regions, where there will continue to be a sizeable pool of surplus rural labour. Yugoslavia has a substantial resource base. Reserves of metal are large, hydro-electric power potential is second only to Norway's, timber is abundant, and coal reserves are greater than those of the seven bordering countries combined.

Yugoslavia will continue to need foreign capital for development, and joint ventures with western firms will be increasingly important. But the country intends to continue to seek non-alignment, and flows of capital from the World Bank, the oil-exporting countries, and the other socialist countries will become more important when in the past. The future viability of Yugoslavia's system will depend on both political and economic stability. If pragmatic evolution continues, the economic structure is certain to remain distinctly Yugoslav and not quite like any other country's.

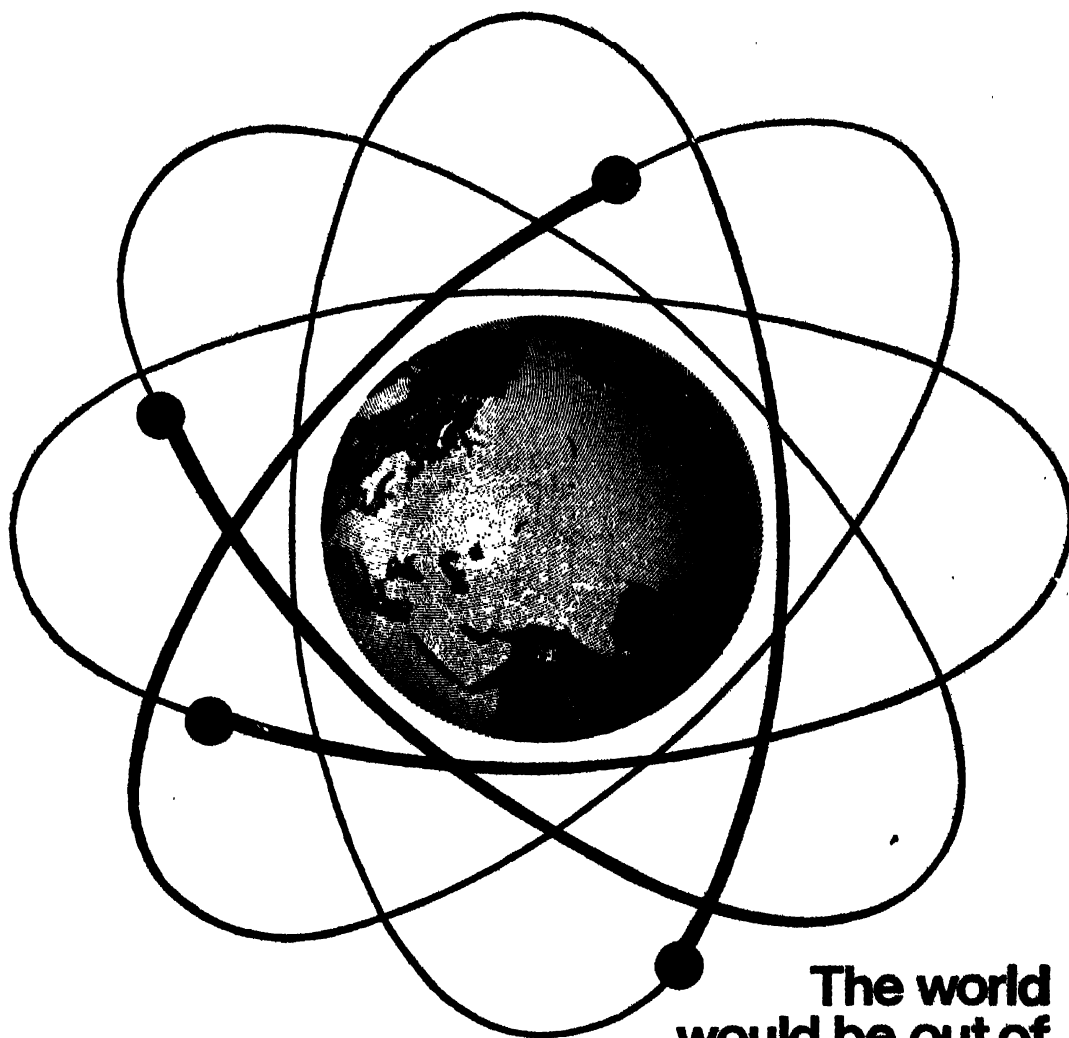
The new constitution, now approved combines federalisation and decentralisation in the economic field. The Presi-

dent's aim has been to stabilise the longer term future of the country by steering a middle course between the conflicting pressures from the east and the west. This has entailed the firm imposition of communist orthodoxy in domestic affairs. Economic policy in 1975 aims to continue along the generally expansionist lines in the last half of 1973. Particular attention will be paid to raw materials production, fuel resources and agriculture. Greater sensitivity to the development needs of the regions has been shown in several ways. Differential rates of profits tax according to regions have been introduced, republics that are rich in potential energy resources are being encouraged to supply economically developed republics such as Slovenia and Croatia which lack them, and finally the development of tourist activity is to be shifted to the interior.

#### spectacular growth rate

*The Economy:* The overall rate of six per cent belies the more spectacular industrial growth rate which is currently rising by an annual rate of 11.6 per cent but is offset by a three per cent growth rate in the agricultural sector. The best performances, comparing the first five months of 1974 with those of 1973, have been in intermediate goods (10.3 per cent), industrial consumer goods (9.5 per cent) and equipment (7.2 per cent). However, such performances have often been maintained by industries stockpiling and this is partly responsible for the growing trade gap, because Yugoslavia is still consuming too large a proportion of its own production. The government's stabilisation programme, aimed at the development of primary industries as part of an import substitution policy, entails an increase in the production of so-called strategic raw materials: this Yugoslavia is well placed to do since it enjoys sizeable reserves of lead, zinc, copper and aluminium.

Despite a record wheat harvest of 6,271,000 tonnes in 1974, agriculture is still ailing in many ways. The growth rate for 1974 did not meet the 3.5 per cent annual average required by the current five-year plan and the government is seeking long-term remedial measures to overcome this difficulty. This year, the incentives under the Green Plan for the development of agriculture from 1973 to 1975 are to be used to encourage small and medium farms to concentrate on intensive farming while larger farms concentrate on bulk crops and cattle breeding. The new constitution promulgates a dual policy of stimulating the private sector, which accounts for 85 per cent of Yugoslavia's arable land to increase productivity while emphasising the need for greater coopera-



**The world  
would be out of  
its element if India  
had not generated  
atomic thought**

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tion between the private and socialist sector.

#### IV Inflation

Persisting inflation is Yugoslavia's biggest headache. Prices at the end of June had risen 25.5 per cent over the past twelve months, ranging from seven per cent for food to 30 per cent for industrial products. This heavy inflation is partly due to trends in world markets amplified by previous under-investment in the primary sector resulting in the need to buy energy (at the estimated increase of \$300 million in the oil bill), steel and agricultural goods at high prices on world markets. The workers have voted themselves large wage increases during recent months which have contributed to inflation but have left most workers no better off than they were eighteen months ago. Inflation has also created liquidity problems. The government's counter-inflation policy has tended to rely less on restrictive demand control and more on increasing the rate of economic growth which will have short term inflationary effects especially since the emphasis has shifted away from direct price control.

**Energy:** The petroleum crisis, which hit Yugoslavia sharply in its early stages, has become less serious. The Yugoslav market was well supplied with petroleum products during the summer, apparently from Libya, Algeria and Iraq. In fact, no significant price rises are foreseen in the near future and the Yugoslav authorities have expressed willingness to run down foreign exchange reserves standing at \$1,249 million to pay the existing extra oil bill rather than restrict economic growth. However, the oil situation may prove disruptive to demand indirectly as it affects Yugoslavia's major trading partners; the OECD countries, for example, account for 50 per cent of Yugoslavia's import and export trade, of which 25 per cent is accounted for by West Germany and Italy alone.

The substantial energy shortages during 1974 were due to national grid problems and the need to achieve a geographical balance of supply. Capacity problems will, it is hoped, be solved in the medium and long-term by building new stations financed by foreign funds, which will increase capacity by 78,000 million kWh by 1980.

**Foreign Trade:** In October, 1974, Yugoslavia devalued the dinar by seven per cent largely in response to the 40,483 million dinars trade deficit for the first eight months of 1974, which is more than double that of the corresponding period in 1973. The root cause was that the prices of imports rose substantially more than those of exports, an imbalance which could not be offset

by the rise in exports' volume. Foreign trade is also being limited by moves such as the Common Market's decision to restrict imports of beef. In August, Yugoslavia introduced several temporary measures to curb imports. Fifty-five items, chiefly consumer goods, can be imported only with special permission. A deposit equal to five per cent of the value of the goods has also been introduced for all imports of consumer goods. A deposit of 30 per cent has been introduced for imports of equipment, though it was expected that purchases of equipment for the construction of power plants would be permitted without deposit. Further savings on imports should result from the longer term domestic production programmes which are being launched; for example, \$70.1 million is to be invested in expanding output of cement with an estimated annual saving of \$15 million in foreign exchange.

Exports totalled \$2,852.6 million, while imports aggregated to \$4,511.1 million in 1973. The table below shows the pattern of foreign trade in the first eight months of 1974:

| Yugoslavia's Foreign Trade |                |         |                |         |
|----------------------------|----------------|---------|----------------|---------|
|                            | Export         |         | Import         |         |
|                            | Million Dinars | % Total | Million Dinars | % Total |
| Asia                       | 5,124          | 12.0    | 9,307          | 11.2    |
| Africa                     | 1,600          | 3.7     | 3,364          | 4.1     |
| N. America                 | 3,766          | 8.8     | 5,976          | 7.2     |
| S. America                 | 443            | 1.      | 2,436          | 2.9     |
| Europe                     | 31,724         | 74.3    | 60,362         | 72.6    |
| Oceania                    | 40             | Neg.    | 1,735          | 2.0     |
| <b>Total</b>               | <b>42,697</b>  |         | <b>83,180</b>  |         |

Exports rose by 45 per cent, while imports were up by 78 per cent during the first eight months of 1974 compared with the corresponding period in the previous year. The products principally responsible for the increase in exports were processed goods, which accounted for 32 per cent of the country's total exports and rose by 67 per cent. Exports of chemical products rose even more steeply, by 107 per cent, but this sector accounts for only 10 per cent of the country's total exports. The steep increase in imports arose from raw materials, fuel and lubricants, which climbed 146 per cent and accounted for 26 per cent of the country's total imports. Imports of food, drink and tobacco rose by 109 per cent, but they account for only 11 per cent of the country's imports.

Yugoslavia's fear of a 25 per cent reduction on the \$630 million earned from tourism in 1973 proved unfounded. Events in Cyprus and political uncertainty in Greece, an increase in late bookings

due to bad weather in northern Europe and the fact that fuel problems were not as serious as expected, relieved the situation. In contrast with a drop of 22 per cent in the number of visitors and a 13 per cent reduction in the number of nights spent by tourists for the first five months of 1974 compared with the same period in 1973, capacity bookings were reported for October and November last. Since tourism may have reached a plateau, the Yugoslavs are turning their attention to diversifying and consolidating the present range of activities. There are programmes to attract a wider variety of tourists as well as to develop the off-season trade with conference and incentive travel. Three Yugoslav airlines are integrating in hopes that the Yugoslav tourist industry will then depend less on foreign airlines for charters.

#### foreign investment

Foreign investment in Yugoslavia has been hampered by institutional barriers. Only 17 per cent of the \$354 million invested in the form of joint ventures comes from foreign partners. Several steps have been taken to remedy this situation, and the UK investment in Yugoslavia has recently become eligible for insurance against non-commercial risks through the offices of the Export Credits Guarantee department. The level of profits tax, in the case of joint ventures, is reduced according to the amount invested. For instance, if more than 50 per cent of the total earnings are reinvested for more than ten years the tax goes down to 22 per cent. The Yugoslav authorities consider that the proportion of loan to equity in the financing of joint ventures is too high, so they are likely to place an upper limit on the amount of loan finance allowed in a venture and may abolish some facilities at present available for loans, such as the exemption from payment of dinar deposits which joint venture foreign loan financing enjoys.

The nearest approach to convertibility is the twice weekly meeting of the inter-bank foreign exchange market. Since July, 1974, the dinar has floated though it remains subject to National Bank intervention. With 60 per cent of foreign trade now liberalised, the inter-bank market is a significant step towards full convertibility although it may be some time before this is achieved.

**Sources and acknowledgements:** The foregoing summarises reports issued by the Chase Manhattan Bank (New York 10015) in its *Business in Brief* and by Barclays Bank Group International (54 Lombard Street, London EC3P 3AH), but neither bank is responsible for the emphasis of my summary nor for my interspersed comments based on a variety of sources.



## Mrs Gandhi is at it

again. In an interview to an American news agency she has reiterated her familiar assertion that she is living in daily dread of assassination. It would be difficult to deny, of course, that, throughout history, prophets, priests or kings have always run the risk of violent death. For some of them this risk has been more real than for others but, even so, it is a statistical fact that only very few public figures have had their life-span fatally interfered with by assassins, political or other. In other words, while politicians, or public figures generally must reckon with something like a professional hazard to their lives, this risk is still an easily and relatively inexpensively insurable one in the case of most of such personalities. I have no doubt at all that, so far as Mrs Gandhi herself is concerned, the Life Insurance Corporation of India will be only too ready to issue her cover against assassination for a nominal premium.

This is for the simple reason that, although lots and lots of people in this country do disagree with the prime minister's political attitudes or economic policies, they do not feel a sense of public outrage — let alone entertain a feeling of private resentment — so savage that they would want her killed. Those of us who may believe that this country could have been governed better or its economy managed more efficiently are also normally disposed to refrain from harbouring very high expectations of politicians. There is therefore no question of any great number of us suffering from homicidal tendencies born of a sense of betrayal where Mrs Gandhi is concerned. We are of course disappointed and sad that she has not been able to measure up to her responsibilities. But this only makes us regard her as a failure, in which case it is not anger that we may feel against her but pity. It is possible of course that the rampant corruption in politics and administration has aroused strong feelings in the community, but the sense of grievance that the public may have in a situation of this kind is not of a nature to arouse in individuals or conspiratorial groups murderous passions against a particular indivi-

dual simply because he or she happens to be the head of the government.

Mrs. Gandhi's thesis no doubt is that there are in our country 'fascist' forces which, whether functioning with a certain amount of 'foreign' inspiration or influence, or not, may desire to get rid of her since, in her view, she and the party she leads have come to symbolize the philosophical goal or political system of democratic socialism. Now, this is a free country and nobody can stop the prime minister or anybody else from believing or even alleging that wicked men are out to get rid of her or her government by violent means.

It is, however, pertinent to ask whether the prime minister or any of her party men (who may be in the government or may not) has knowledge of conspiratorial men or groups at work in the manner alleged. If she or he has this information or even ground for suspicion, there is certainly enough scope in the extraordinary laws of the land to round up potential assassins or their organizations and put them behind bars even without having to bring them to trial before a court of law where hard proof will be demanded. Indeed it is possible that there are some individuals among hundreds of political detenus in the country who may have been put behind bars precisely because the government has reason to believe that they or their activities suggest violent intentions on their part. If this is so, then, Mrs Gandhi should at least be able to resist the temptation to reply to stock questions put to her by sensation-mongering foreign journalists with melodramatic affirmations of her life being in constant danger.

## The Durga Ratan awards

for excellence in journalism, although so recently instituted, are already in some danger of stultifying themselves as 'pats on the back', so to say, for professionally departing journalistic souls. Mr S. Mulgaokar, Editor-in-Chief of *Indian Express*, for instance, has been given one of the

awards this time as "the columnist whose writings over the year marked him out as the most outstanding analyst and commentator of the year." If the members of the advisory committee, which has recommended these awards, would really believe this citation, they should be capable of believing anything. Mr Mulgaokar is an outstanding journalist, no doubt, but virtually all of his brilliance as a columnist belongs clearly to the past. His best years in this respect were those during which he wrote his column "National Affairs" for *The Hindustan Times* of which he was the editor at the time. His 'Editor's Notebook' in *Indian Express* of which he is now the Editor-in-Chief is not only not in that class but is not in any class at all.

Such of us as are aware of Mr Mulgaokar's performance as a columnist in his journalistic prime could of course rejoice in the notion that the award which has been given to him now is really in the nature of a salute to that past, but the citation itself must be dismissed as of no worth since it does not even seem to care to know what it is talking about. We have seen other honours, such as the Sangeet Natak Akademi awards, being given in many cases without any relevance to the current work or worth of the recipients. Is it to be assumed that bad practices must always prove infectious?

Incidentally, those who claim to be in the know say that Mr Mulgaokar is about to leave *Indian Express* for *The Statesman*. Both papers, it so happens, are having problems. In the case of *The Statesman* the problem is overdrafts and, in the case of *Indian Express*, it is falling circulation. Mr Ramnath Goenka, it is reported, has lately been applying his mind to perking up the reader-appeal of his newspapers. Mr Kuldip Nayar's recent installation in a senior editorial position on the staff of *Indian Express* is said to be a part of the Goenka prescription for face-lift to *Indian Express*. Mr Ajit Bhattacharjea, who cannot be fully employed as the editor of *Everyman's*, will probably take over from Mr Mulgaokar when the latter leaves for *The Statesman*. It is an interesting coincidence that three of the four national dailies — which are being published from New Delhi—I am having *The Hindustan Times* also in mind — must all be having domestic problems of one kind or the other at one and the same time. Mr Inder Gujral, I suppose, is entitled to his satisfaction.



# MOVING FINGER

# Human factor in entrepreneurship

**Socio-Psychological Factors Influencing the Adoption of the Innovation of Starting Small Industry Unit - A Research Study :** Small Industry Extension Training Institute, Hyderabad; Pp 109; Price Rs 10.

**Economic Blocs and US Foreign Policy:** Ernest H. Preeg; National Planning Association, Washington; Pp 202; Price \$3.50.

**Economic and Social Change in India:** S.L.N. Simha; Institute for Financial Management and Research, Madras; Pp 159; Price Rs 35.

**Evolution of Cooperative Thought:** K.K. Saxena; Somaiya Publications Pvt Ltd; Pp 159; Price Rs 35.

**Credit Planning and Policy:** Edited by S.L.N. Simha and A. Raman; Institute for Financial Management and Research, Madras; Pp 199; Price Rs 30.

**A Richer Harvest - New Horizons for Developing Countries:** Sudhir Sen; Tata McGraw-Hill Publishing Co., New Delhi; Pp 573; Price Rs 51.

*Socio-Psychological Factors Influencing the Adoption of the Innovation of Starting a small Industry Unit - A Research Study* is an excellent analysis mainly concerned with some aspects of the human factor which influence the growth of small industry unit. This research study makes an attempt to analyse on the basis of empirical data collected during 1964-67 in Hyderabad and Secunderabad (i) the biological, economic and psychological background of the entrepreneurs, (ii) the influence of sociological and psychological factors, (iii) the encouraging and discouraging factors which have their impact on such entrepreneurs, (iv) the stages in the process of adoption of innovation in starting small industry units, and (v) the influences of environment as well as organisational assistance.

## financial aid

While the government is forthcoming to give financial and other assistance to entrepreneurs interested in starting a small industry unit, no attempt has been made so far to find out who these entrepreneurs taking advantage of such assistance programme are and the various sociological and psychological factors considered as favourable and unfavourable for launching such small industry units. Since this study makes such an attempt, one would very much be interested in knowing some of the important findings of this study.

Sixty-one small units in Hyderabad and Secunderabad from among those registered with the Directorate of Industries, Andhra Pradesh were selected for this study. It was found that 41 per cent of the respondents had college degrees

and 33 per cent had passed high school examination. It was seen that 61 per cent of the respondents had experience in industry, while another eight per cent were engaged in business dealing with items similar to what they manufactured later on in small industry units. Why did entrepreneurs enter this field? It appears that for most, economic gain was the most important reason for entering the small industry units; the second most important reason was ambition; the third and fourth reasons were social prestige and social responsibility, respectively. The study reveals that the level of education did not influence the respondents in their starting small industry units, nor did income of respondents had any influence in this regard. Similarly risk-taking ability does not seem to have influenced the respondents in their reasons for starting small industrial units; nor need for achievement had any influence on their decision.

## demand factor

For all the 61 respondents taken together, high demand for product was seen to be the most encouraging factor in starting industrial units, the second most encouraging factor in this regard being 'experience in the line', followed by encouragement by friends and families, respectively. For all the 61 respondents taken together, capital shortage and governmental red-tape were seen as the most discouraging factors in starting their industrial units; the next two discouraging factors being non-availability of raw materials and scarcity of skilled labour.

Six stages, namely awareness, interest, preparation, trial and evaluation

were noticed to occur during the process of adoption. The survey found that all the 61 respondents did not pass through all the above stages nor was the sequence of the above six stages constant for all the respondents.

An interesting finding of this study is that "Younger age, formal education, urban background, experience in industry, level of aspiration and risk-taking were associated with the majority of respondents. "It is also interesting to note from this study that technical education, high monthly income, contacts with influentials etc. were not associated with the majority of the respondents.

## service institutes

The study has revealed that 47 per cent of the respondents were already working in industries at the time of awareness; 33 per cent were engaged in commerce and 10 per cent employed in service, private and government. Majority of respondents seem to have received assistance of one sort or another from the office of the Directorate of Industries and the Small Industries Service Institute.

In India there has been a phenomenal growth of the small-scale industry sector during the period of the five-year Plans. From the negligible amount of financial allocation in the first five-year Plan, the public and private sector investment in the fourth five-year Plan for village and small industries went up to Rs 694 crores. The importance of small industry sector assumes great significance when viewed from the point of provision of employment, use of local resources, regional balance and need of quick results by way of production.

While socio-economic virtues of the small industry sector have been well recognised, it appears that there is need for a fuller knowledge of the problems of growth of new small industry units not only in the economic sense but perhaps more importantly in the social and psychological milieu which acquires tremendous importance. Small industry units do not just come into existence but they have to be brought into existence by some one. It is unfortunate that while all these

ars the discussion and analysis of small industry sector are being carried in terms of financial provisions, targets and expenditures, no study was carried on about the man who is expected to enter this field.

From where did the small-scale industrialist first get the idea of starting the type of industrial unit that he now has? After getting the idea, did he start the unit overnight? What role did governmental and non-governmental agencies play in the process of establishing the unit? Answers to these and similar questions are of great significance for individuals and organisations working to accelerate the development of small industry sector in the country. As this study makes an attempt to answer some of the above questions, it is of great significance and would help government and other organisations working in this field in framing suitable policies for the promotion and rapid development of small-scale industries in the country.

### Economic Blocs

To a critical observer of the international scene, it would appear that the postwar international economic system which provided the framework for an unprecedented quarter century of expansion of world income and trade appears to be gradually crumbling. It is noticed that over the past several years, the international monetary arrangements have been racked by successive crises culminating in the abandonment of the International Monetary Fund system. Also trading rules of GATT seem to be continually violated by various member-countries under one guise or another while protectionist sentiment is gradually spreading; and political-economic role of international investment has been provoking as many controversies as there are sovereign states.

The Bretton Woods system was based on three central concepts: universality (where all the nations participate on the basis of equal treatment with essentially identical and non-discriminatory obligations and privileges); minimum and ultimately no barriers to international flow of goods and services; and third, currency convertibility under normal conditions of fixed exchange rates.

The current situation is typified more by the breach than by the observance of the above Bretton Woods concepts. As for the concept of universality, the communist countries do not participate in the system and developing countries are eligible for preferential access to markets of developed countries while themselves

carrying out their GATT and IMF obligations in a very limited way as it suits the convenience of their national developmental strategies. The multilateral convertibility/fixed exchange rate system long under duress practically ceased to exist so that by 1973 a *de facto* arrangement of 'managed floating rates' was generally in effect. The monetary breakdown stemmed from the lack of an adequate adjustment mechanism for both long-term or 'fundamental' disequilibrium and short-term cyclical disequilibrium complicated by the difficulty of distinguishing one from the other.

The author of *Economic Blocs and US Foreign Policy* is of the opinion that "the declining relevance of the Bretton Woods principles to the actual conduct of international economic relations had produced a dangerous void in conceptual thinking upon which to base national strategies for dealing with these matters" "The difficulties appear to be compounded by recent developments that seem to be changing the basic context of the international economy such as the external consequences of evolving domestic policies to achieve the optimum balance between inflation and resource utilisation, emergence of multinational enterprise, natural resource depletion, environmental controls and the apparent broadening of economic relations between centrally planned communist countries and market-oriented economies of the west. An economic system based on universal rules, never a reality, may in fact be highly unrealistic in a contemporary world of some 130 nations ranging in annual per capita income from \$ 5,000 to \$ 60. The author believes that, if not by choice, perhaps by necessity, the international economy may have to be based only in part on multilateral rules while the remainder is subject to more or less selective arrangements.

### evolving system

The purpose of this study is to assess the evolving international economic system largely in terms of multilateral rules versus more limited economic arrangements among particular groups of countries. The author seeks an answer to the problem of finding the least common feasible denominator of multilateral foundation which ought to be supplemented by a more selective superstructure of rules applicable to many of the developing countries.

The author has analysed the various aspects of the dominant international economic relationship at the present time and the elements of possible economic policy framework for the coming decade (again with the primary emphasis on the

significance of multilateral versus more limited geographical groupings of countries). The author concludes with a brief prognostication of the most likely course of the world economy through the mid-1980s.

The author has arrived at the following conclusions regarding the possible future trends.

According to the author, there is tri-polar drift in economic relations among the advanced industrialised countries with a high and growing interdependence within western Europe and between the USA and Canada, compared with a much lower relative degree of economic interdependence among the three centres of western Europe, North America and Japan.

### policy implications

The policy implications of the above trend towards economic tripolarization is for a more closely knit and specified policy framework within Europe and between the two North American industrialised countries and a more loosely defined relationship among the three centres. At present, the most important area of policy in this respect is the balance-of-payments adjustment process which includes more than exchange-rate policy, extending to the degree of coordination of internal policies and possible spillover to certain related trade and investment policies as well.

According to the author, the polarizing effect of the three industrialised centres on other countries is less clear, and will depend in large part on the policies pursued by the industrialised countries. Many important areas from south Asia, Australia to Indonesia, most of Latin America and Africa are not overwhelmingly linked to any major economic power; nor need they be, if the industrialised countries follow appropriate policies.

The international economic system, according to the author, that will evolve over the coming decade will probably have far less emphasis on specific legalistic rules and commitments and more emphasis on practical arrangements and procedures for ensuring a continued open and cooperative world trade and monetary system. As regards broader aspects of foreign policy, the author opines that a more flexible economic system of this kind should facilitate an economic rapprochement between east and west as well as improved relations between developed and developing countries.

This is an excellent study which gives

readers a peep into the future in the fields of international trade and currency arrangements. The nations of the world are entering a period of major negotiations for reforms in the fields of international trade and monetary and other economic relationships that will require several years to complete. It is necessary, as the author has pointed out, that "during these years of important negotiations, a variety of studies be made that can improve knowledge about the basic economic trends and their interrelationships and deepen understanding of the implications of these actual and prospective developments for the nations whose policy choices play significant roles in determining the system's future benefits and costs." This study by Ernest H. Preeg definitely makes a substantial contribution towards meeting that need.

## Social Change

*Economic and Social Change in India* is a commemorative volume published on the occasion of the silver jubilee of India's republican constitution. It attempts to portray the various economic and social changes which have taken place in the country since independence or rather since the adoption of the republican constitution by India. Quarter century in the history of a nation is a convenient watershed where one can stop and look back to see whether the country is moving in the right direction and at appropriate pace. Very often claim is made that a traditional Indian society is being rapidly transformed into a modern society with its new scale of values and modes of living and thinking. It is certainly worth critically examining the pace and direction of change taking place in the Indian subcontinent since independence.

Vast and significant developments have taken place on the international scene since India became independent. The explosion of the hydrogen bomb, the landing of man on the moon, the growing détente between USSR and the USA, the assassination of Kennedy and resignation of Nixon, devaluation of the US dollar, sharp rise in the price of gold, four-fold increase in the price of crude oil, the birth of international money in the form of special drawing rights, wars between India and China and India and Pakistan, splitting of the Indian National Congress, the ascendancy of the linguistic states and birth of Bangladesh — have been some of the most significant developments in India and abroad. Further, while the world economy has recorded a substantial expansion during the last 25 years, the economies of developing countries have not performed so well as developed countries with the result that the yawning gap between

the two has been widening. It is also noticed that there has been, according to the author, "a very marked falling off in standards of public and private conduct. Every society is becoming more and more permissive. What is noticed is that while the developed countries are looking for philosophical and spiritual panacea for social and economic ills, developing countries are moving away in several cases from their traditional values and ways of life and are rapidly imitating the western pattern of life. Everywhere cultures seem to be rapidly undergoing transformation."

During these 25 years, the Indian scene has also undergone tremendous economic and social changes. Though in relative terms, one may be dissatisfied about India's economic growth, the author is of the opinion that in absolute terms, the picture of India's economic development looks much better, though because of continued high growth of population, the average standard of living has not gone up to any perceptible extent. During the last 25 years, the developments in the sphere of manufacturing are certainly remarkable; but what according to the author is more significant is the change in the attitude of people which is truly revolutionary.

## urge for improvement

Instead of resigning one-self to one's fate, there is a marked desire on the part of people to improve standards of living. Also growth in industrial entrepreneurship both in the private as also public sector is truly remarkable. The way in which ministers and civil servants have acquired expertise in intricate technical, managerial and financial matters is truly astonishing. Though jubilation over the green revolution might be premature, the fact remains that the phenomenon of green revolution has at any rate shown the way of winning the fateful race between food and population.

Since independence some tremendous changes in the social sphere have also taken place in India. According to the author, these social changes may be seen broadly in every aspect of our daily living — food, dress, social habits, travel, education and employment.

And yet according to the author, the pace of modernisation is still very slow and a massive effort on the part of the country will be required to successfully tackle the country's numerous economic and social problems. Otherwise it will be impossible to cross the poverty line. The author has warned that a lead must come from our ministers and politicians assisted by civil servants. Also our intellectuals have an important role and duty to perform in mobilising public sup-

port "for a course of action that would lead the country surely and swiftly to the path of economic prosperity and social justice."

The author has given in this book a mere objective and factual account of the changes which have been taking place in India since independence, rather than the republican constitution was adopted. Unfortunately the author has concentrated his attention only on the quantitative aspect of these changes. He does not propose to sit in judgment on the quality of changes in various fields that have been taking place, and it is this qualitative aspect that is worrying our social and political reformers. For example, how firmly have we laid the foundations of our democratic regime aiming at socialistic pattern of society? Many would think that we have only adopted the facade and trappings of democracy while the content is mostly lacking. And what about the massive corruption that has been eating into the very vitals of our society? What about the quality of our leadership? How many are there merely because of their caste? What about the increasing disruptive tendencies that are being strengthened since independence? What about the student world? Does the present generation of the students inspire confidence in the future of our country? [Standards have been falling everywhere and moral deterioration especially among our leaders seems to have brought the country to the brink of ruination. It is not so much the speed with which we are going that matters as the direction and therefore when we take a critical look at the changes that have been taking place in India, without distracting from the achievements, one is likely to feel extremely apprehensive about the shape of things to come. About all this the author unfortunately has said very little or nothing, which fact considerably reduces the value of the book for a serious student of Indian affairs.]

## Scissors and Paste

*Evolution of Cooperative Thought* is based on the adaptation from the author's thesis on the same subject for the award of the D. Litt. degree in commerce of the Lucknow university.

The author has made an attempt in this book to trace the evolution of cooperative thought, beginning with the origin of cooperative thought which goes much beyond the name of Rochdale. The author has made an attempt to trace the role of early cooperators and social reformers who propagated cooperative thought. We meet here the figures like Robert Owen, Mudie, Combe, Thompson, Dr. William King, Charles Fourier, Louis Blanc, Saint-Simon and Cuche-

and of course Schulze and Raiffeisen and a host of other cooperators who have over centuries contributed to the development of theory and practice of cooperation.

The author has pointed out that at one time it was felt that religious and political neutrality should be the aim and avowed principle of cooperation. But today it is found that cooperation cannot keep itself aloof from political thinking and at times cooperators owe a duty to give shape to the national policies and political ideas of the governments of various countries. Under the new circumstances therefore a fresh look at the development of cooperative thought becomes necessary.

### not yet arrived

The author is of the opinion that "the age of cooperation has not yet arrived. Cooperation, it may be said, as yet is not at the 'take-off' stage. "This follows from the fact that as yet cooperative system has not been in a position to evolve uniform principles. As soon as permanent values are developed, the cooperation, according to the author, will be able to proclaim with confidence the era of cooperation.

According to Dr Saxena, the future co-operators will face the problem of mutual inter-relationships amongst them. The secondary organisations of cooperatives variously termed as unions, federations and central associations have to continue to play their role in building up cooperative economy. The secondary organisations should not halt at the national level; they should go beyond national business. Unless international cooperation among cooperatives grows and many more institutions like the Scandinavian Wholesale Society, the International Cooperative Petroleum Association, Scottish Cooperative Wholesale Society etc., come into existence, "the dawn of the age of Co-operation will simply be delayed."

The idea of 'Cooperative Economy', according to the author, has to be pursued more vigorously. It would necessitate not only greater loyalty and devotion among members, but closer and more active liaison between different types of cooperatives at different levels. The author has predicted that cooperation is "destined to play a decisive and effective role in the world economy of tomorrow."

The tendency among cooperators is to raise cooperation to the status of a religion and invest the movement not only with business considerations but with high degree of moral overtones. Once this is done and cooperation ceases to be just

one of the forms of business organisation suitable to only certain activities and succeeding only under certain conditions, the tendency develops among cooperators to shut eyes to all the evils that may and do erode the cooperative movement. This is evident from the fact that the cooperative movement in India has been exhibiting all the defects of capitalism and socialism without their redeeming virtues as is convincingly illustrated by cooperative sugar factories in Maharashtra. Co-operative movement in India has developed as many vested interests as the capitalist sector in the country and is equally exploitative. All this can be remedied and cooperation can be made to play its due role if cooperation is considered as just one of the forms of business organisation and put in its proper place. Cooperators must stop spelling cooperation with capital 'C'.

Dr Saxena's style is exasperating. The book is mainly made up of strings of quotations from scores of authors on the subject joined by conjunctive clauses. This makes the reading of the book utterly incoherent and unintelligible. The reader hardly gets a comprehensive picture of the cooperative thought and movement. It is not said in vain that majority of doctoral theses of the Indian scholars is mainly a matter of scissors and paste.

### Credit Planning

A few years ago one hardly heard of 'credit planning'; today one wonders whether physical planning can ever succeed without credit planning. Of course planners have learnt this by experience. But unfortunately one hardly comes across any worthwhile book or treatise on the principles and policy of credit planning. It was therefore a matter of pleasure when one read the title of credit planning and policy on a book appropriately published by the Institute for Financial Management and Research of Madras.

*Credit Planning and Policy* contains a set of 12 articles and a postscript and in this brief review attention can be drawn only to the important features in some of the articles.

A. Raman maintains that there are macro and micro aspects of credit planning. The macro aspect has to take into account the overall volume of credit expansion to meet the requirements of the economy. Credit planning in the macro sense would involve the preparation of a monetary budget which should indicate the likely tolerable order of increase in money supply in relation to likely increase in real output. According to the author, with the preparation of monetary budget

and the size of the credit expansion of the commercial sector broadly determined, the responsibility of further allocation of credit among various competing sectors shifts to individual banks. This involves at an individual bank's level the preparation of credit budget. Credit deployment among various sectors has to be determined in the light of the real resource position. According to the author, the credit authorisation scheme of the Reserve Bank of India should be viewed from this point of view. Against this theoretical background of credit planning and its necessity, A. Raman has also analysed in detail the recent credit policy of the Reserve Bank of India and has shown how the Reserve Bank is taking steps to meet credit needs of some of the important sectors such as production and movement of goods and exports.

### selective controls

H.B. Shivamaggi has analysed in detail selective credit controls of the Reserve Bank of India. He has shown the steps which the Reserve Bank has been taking to provide production incentives, encouragement to industries, small loans, loans for procurement and distribution, concessions to backward areas, export incentives, and assistance to industries in rural and backward areas. The author has explained very clearly how selective credit controls can be used effectively as weapons or tools of credit planning.

The credit authorisation scheme of the Reserve Bank of India forms or should form an integral part of credit planning and from that point of view A.K. Buchar's article on 'Credit Authorisation Scheme' is worth reading. The fund of technical details provided by the author gives readers a very clear understanding of the scheme.

The credit guarantee scheme of the Reserve Bank of India as also financing of agriculture by commercial banks by R. Vijayaraghavan and P.K. Khanna respectively make extremely instructive reading. The analysis of the various problems faced by commercial banks while providing finance to agriculture brings out the enormity of the problems as also various complexities involved.

There is no doubt that since its establishment in 1935, the Reserve Bank of India has made great advance in controlling the quantity and use of credit for which it has evolved or adopted various weapons which it has learnt to use more and more efficiently with the lapse of time and acquisition of experience. Various articles in this volume deal with this regulatory mechanism of the Reserve Bank of



India. But does this amount to credit planning? Credit planning is something that goes beyond mere credit regulation both in its quantitative as well as qualitative aspects. Nowhere in the book do we get an explanation of the concept of credit planning and its underlying principles which one is left to infer from what the Reserve Bank of India has been doing. While therefore readers learn a great deal that is really useful about the various operations of the Reserve Bank of India and the way it is regulating and making more effective use of credit, it cannot be said that they get a clear and comprehensive idea about credit planning.

### Weakness of Development Programmes

Sudhir Sen has been busy for decades studying and thinking about "what has long been and remains more than ever before the world's number one problem - the problem of poverty."

*A Richer Harvest - New Horizons for Developing Countries* has been planned as a trilogy. In the first part the author begins with a critical analysis of the kind of job the United Nations placed between the aid-givers and aid receivers, has been doing as aid-administering agency. The author out of his experience with the United Nations development programmes, has rightly come to the conclusion that "The besetting weaknesses of its programmes are three: they are not production-oriented; they are indifferent to, if not callous about, priorities; they show no understanding of the principle of complementaries." The author is convinced that the failure of the United Nations to grasp this leadership firmly and imaginatively has deprived it of what could have been powerful instrument to strengthen its own foundations, to build up its moral prestige and thereby to improve its prospects of tackling some of the more intractable political problems," despite the rift of ideologies and the chill of cold war "

The second part of the trilogy looks at the problem from the point of view of the aid-receiving countries. The author has examined the question of how to plan and implement high-quality country-programmes to secure the best possible use of both domestic and external resources, and thereby to make the maximum possible contribution to raise the living standard of the vast masses of people.

In this connection Sudhir Sen has emphasised that a well-conceived country-programme must have agriculture as its hard core. The author is of the opinion that accelerating green revolution, provi-

ded its benefits are widely diffused, can help dampen population growth far beyond what even the best family planning programme can by itself achieve in a developing country. The author has examined how to make the green revolution a success. The development planning naturally must concern itself mainly with this question, for if the green revolution succeeds, a great many other things will automatically fall into their proper places and will lift the entire economy to a higher level of development. "If it fails, it will not only drag down everything else, but will put the nation's very existence into jeopardy. The reward of success is extraordinarily high; so is also the penalty of failure."

The author naturally has devoted much of his attention to India where problems of poverty are vast, complex and acute and "where awesome drama of food-and-population race has entered the climacteric phase." If the problem of poverty can be solved in India, as the author believes it can be, it can certainly be solved in most other countries of the world within reasonable time. India can serve as a model to these countries.

### right technology

The third part of the trilogy has considered certain aspects of the relations between the rich and poor nations as also between the rich and the poor within a developing country. The author has emphasised that development economics must centre primarily on the development of physical resources, especially land and water. In doing so it must choose the right kind of technology to suit each specific situation. In most cases it must concentrate heavily on the production of food. It must give high priority to the development of suitably located market-towns to serve as nuclei for urbanisation and with network of all-weather rural roads linking farmers to markets. It must provide for massive expansion of production credit 'green revolution credit' - to finance the production and marketing of new varieties, along with the supporting services and facilities. It must come to grips with the long-sighted problems of land reforms" to free agriculture from the stranglehold of feudalism, which in most developing countries has outlived colonialism. "And it must lay emphasis more than hitherto on development-oriented education and health-cum-family planning as indispensable tools of both economic progress and social welfare.

Economic development so far in poor countries has been heart-breakingly slow for which the blame must go to all—

planners and economists, aid-givers and aid-administrators. However, the author is extremely optimistic that the development of poor countries can be easily speeded up here and now and with resources they have at their disposal. According to the author, "The biggest push in that direction will come when agriculture based on high-yielding varieties of crops is combined with high-yielding economics based above all on resource development with intelligent use of the miracles of science our age has been saturated with." When this happens, the poor nations will begin to stride swiftly the route from age-old poverty to the age of plenty.

*A Richer Harvest* is truly a remarkable book, easily one of the best on the problem of agriculture and poverty in India. What is especially notable is that unlike most other books on poverty which are filled with innumerable statistical tables, technical jargon and heavy footnotes, this book is written in a manner that would satisfy at once both the layman and the sophisticated. The arguments in this book are so persuasive that one begins to wonder how our planners never thought of these approaches before so much so that one often begins to wonder whether the planning commission was filled with ignoramuses all these years. And what is possibly the most remarkable thing about the book is that it succeeds in creating hope in the minds of readers that all is not yet lost and removal of poverty and progress is just round the corner, provided we have the wisdom and will to pursue the right path, instead of getting enmeshed in sterile ideological controversies.

### Books Received

*Management in India: New Perspectives:* S.K. Roy; Muenakshi Prakashan 4, Ansari Road, Daryaganj, Delhi-6; Pp 187; Price Rs 30.

*New Concepts in Press Freedom:* Chanchal Sarkar; Press Institute of India, Sapru House Annexe, Barakhamba Road, New Delhi; Pp. 17; Price Rs. 4.00.

*India's Strategy for Industrial Growth—An Appraisal:* H.K. Paranjape; Gokhale Institute of Politics and Economics, Poona 411004; Pp. 40; Price Rs 5.

*Art for Living:* Published by Career Study Centre, Central Institute for Research and Training in Employment Service (D.G.E. & T), Ministry of Labour and Rehabilitation, Government of India, Pusa, New Delhi-110012; Pp. 90. Price 0.75.

*Mathematics for a Career:* Published by

- Career Study Centre, Govt. of India; Pp. 32; Price Rs 0.35.
- Tax Policy: Some Aspects of Theory and Indian Experience*: T. Mathew; Kalyani Publishers, 1/1 Rajinder Nagar, Ludhiana; Pp. 183; Price Rs 30.
- Agricultural Price Policy in Economic Development*: Rajbans Kaur; Kalyani Publishers; Pp 110; Price Rs 22.50.
- Exchange Control*: Published by Indian Investment Centre, Parliament Street, New Delhi; Pp. 72; Price Rs 7.00.
- Grain of Wheat*: Dr. S.V. Pingale; Published by Roller Flour Millers' Federation of India; Pp. 193.
- Dapada—A Village in Dadra and Nagar Haveli (Socio-Economic Survey)*: Office of the Registrar General of India, Ministry of Home Affairs, New Delhi; Published by the Controller of Publications, Delhi-6; Pp. 299; Price Rs 9.75.
- Socio-Economic Profile of Dadra and Nagar Haveli*: Office of the Registrar General of India, Ministry of Home Affairs, New Delhi; Published by the Controller of Publications, Delhi-6; Pp. 71; Price Rs 1.50.
- Committees and Commissions in India: 1947-73: Vol. I 1947-54*: Virendra Kumar; D.K. Publishing House, 73-B, Anand Nagar, Delhi-110 035; Pp. 404; Price Rs 125.00.
- Marketing of Agricultural Produce in India*: A.P. Gupta; Vora and Co., Publishers Pvt. Ltd. 3 Round Building, Bombay-400002; Pp. 264; Price Rs 30.
- The Calcutta Stock Exchange Official Year Book 1974 (38th Edition)*: Published by the Calcutta Stock Exchange Association, Ltd, 7 Lyons Range, Calcutta 700 001; Pp. 925; Price Rs 50.
- An Introduction to Labour Laws*: F.L. Berarwalla; Vora and Co. (Publishers) Private Ltd; 3, Round Building, Kalba Devi Road, Bombay 400 002; Pp. 265; Price Rs 25.
- Directory of Key Personnel in Public Enterprises and "Who is Who" in Public Sector*: Published by the Standing Conference of Public Enterprises; Chandralok, 36 Janpath, New Delhi 110 001; Pp. 408; Price Rs 30.

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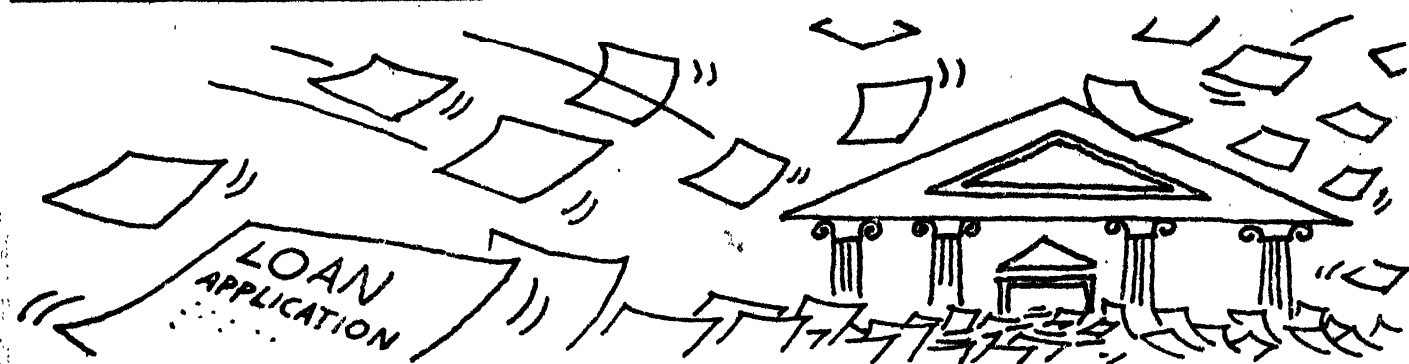
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# PRIVATE SECTOR BANKS

## A dynamic force in nation's banking

WITH THE nationalisation of the 14 major commercial banks on July 17, 1969, the share of the private sector banks in the banking activities of our country became very small. The banks which were not taken over by the state were of three categories: (a) scheduled commercial banks with deposits less than Rs 50 crores each; (b) non-scheduled banks; and (c) foreign banks operating in India. The foreign banks stood in a class apart as they were not taken over primarily because it was feared that it might have an unfavourable impact on the country's foreign trade. The other two categories together accounted for an extremely small fraction of the total banking operations in the country and were left out because their sphere of activities was, relatively speaking, too small to be of any significance.

However, during the last five years, some of these private sector scheduled banks have given a good account of themselves. Their rapid expansion has demonstrated that banking is first and foremost a service and the client would patronise a bank irrespective of the fact whether it was run by the state or the private

sector provided he got efficient service. Six of these banks at the end of 1974 had deposits exceeding Rs 50 crores each.

In 1969, all banks having deposits of more than Rs 50 crores were taken over by the government. Currently the government had no intention, as stated by the union Finance minister, Mr C. Subramaniam, in the Rajya Sabha on February 25, 1975, of nationalising either Indian or foreign banks whose deposits had crossed the Rs 50-crore mark.

Mr Subramaniam listed the banks whose deposits on the last Friday of December, 1974, were more than Rs 50 crores each. They were: (1) Andhra Bank; (2) The New Bank of India; (3) The Vijay Bank; (4) The Punjab and Sind Bank; (5) The Oriental Bank; and (6) Corporation Bank Ltd.

The reason advanced by Mr C. Subramaniam for not nationalising the private sector commercial banks was that the Reserve Bank through its extensive powers could closely watch and supervise their functioning. He also said that the nature and the extent of control over the private banking

corporations was a matter which was constantly reviewed.

With 84 per cent of the deposits with the nationalised banks, the share of the private sector banks including those in the foreign sector was no more than 16 per cent. Even then, it was a fact that these private sector commercial banks were being patronised by the clients because of the

quality of service which they received from them. This was also a rather sad commentary on the working of the nationalised banks where salaries of the employees had increased sharply but service to the clients had deteriorated almost in inverse proportion to the salaries and the allowances drawn by the bank employees.

It was no secret that the

TABLE I

Purpose-wise distribution of developmental loans of the public and private sector banks

(Amount in lakhs of rupees)

| Purpose                                            | Public sector banks |                      | Private sector banks |                     |
|----------------------------------------------------|---------------------|----------------------|----------------------|---------------------|
|                                                    | Amount outstanding  | Percent age to total | Amount outstanding   | Percentage to total |
| Minor irrigation                                   | 8674.37             | 53.8                 | 181.70               | 12.8                |
| Tractors and agricultural implements and machinery | 4466.98             | 27.8                 | 480.75               | 33.9                |
| Reclamation and land development schemes           | 750.14              | 4.7                  | 173.00               | 12.2                |
| Plantations                                        | 1076.63             | 6.7                  | 405.22               | 28.6                |
| Others                                             | 1131.24             | 7.0                  | 177.85               | 12.5                |
| Total :                                            | 16099.36            | 100.0                | 1418.52              | 100.0               |

Source : Reserve Bank of India Bulletin, August 1974, Page 1431.

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decision to nationalise 14 major banks in 1969 was taken for political considerations though the economic rationale, however unconvincing, for this step was also presented later on. Mr C. Subramaniam, the union Finance minister, justified the decision to encourage the private sector in banking in these words: "India is experimenting with mixed economy. So long as this policy remains there is no need to nationalise the remaining banks. Moreover this practice promotes healthy competition and banks in both sectors are vying with one another to provide the best possible service to the people." Surely, the private sector banks have scored over the nationalised banks in service to the clients. They are likely to march ahead at a brisk pace in the coming years and it would not be a surprise if a couple of them scored over some of the nationalised banks in the next five years.

#### Faster increase

Strangely enough the rate of increase in deposits of scheduled commercial banks in the private sector was much faster than was the case with banks of all the other categories. Between July 18, 1969, and June 30, 1974, the deposits of the State Bank Group rose by 139 per cent while those of the nationalised banks

rose by 126 per cent; the private sector commercial banks increased their deposits by as much as 235 per cent. This in itself was proof positive of the dynamic character of the operations in the private sector banks. Many of the efficient bankers left the public sector banks to take up challenging tasks in the private sector banks; also they found that these banks had, after take-over by the state, lost their ability to respond promptly to the needs of the clients. Even though they were given only marginal facilities such as the slightly increased rates of interest to be offered for deposits, yet they had been able to attract increased percentages of deposits through personalised, aggressive salesmanship.

All these banks were governed by the central banking authority and were required to fall in line with the policies chalked out for the banking sector. For example, in recent years all banks whether in the public sector or the private sector were asked to accord topmost priority in the matter of advances to agriculture, exports, small-scale industries and the self-employed. The Reserve Bank of India in one of its recent studies has analysed the development loans provided by both the public and the private sector banks for agriculture. As Table I, (p. 696)

shows, the private sector banks have participated in all major agricultural activities such as minor irrigation, tractors and agricultural implements and machinery, reclamation and land development schemes and plantations. The states where the private sector banks have given the largest assistance for agricultural purposes are Tamil Nadu, Andhra Pradesh, Karnataka, Punjab and Uttar Pra-

desh. Bulk of this assistance has been given to agricultural holdings below 10 acres (Table III below). While nearly one-half of the loans of the private sector have been made to agricultural holdings below 2.5 acres, the public sector banks have provided only one-fourth of their short-term loans to holdings of less than 2.5 acres. In other words, the private sector banks have tended to assist the small-

TABLE III  
Profits of Scheduled Commercial Banks  
(Bank group wise)

|                                            | (Rs crores) |                 |                 |
|--------------------------------------------|-------------|-----------------|-----------------|
|                                            | 1970        | 1971            | 1972            |
| 1. State Bank of India                     | 2.70        | 3.78<br>(40.0)  | 3.85<br>(1.9)   |
| 2. Subsidiaries of the SBI                 | 0.53        | 0.51<br>(-3.8)  | 0.51<br>(-)     |
| Total of 1 and 2                           | 3.23        | 4.29<br>(32.8)  | 4.36<br>(1.6)   |
| 3. 14 Nationalised banks                   | 6.90        | 8.46<br>(32.6)  | 7.58<br>(-10.4) |
| 4. Other Indian Scheduled Commercial Banks | 1.14        | 1.67<br>(46.5)  | 1.37<br>(-18.0) |
| 5. Foreign Banks                           | 2.63        | 2.78<br>(5.7)   | 3.90<br>(40.3)  |
| Total :                                    | 13.90       | 17.20<br>(23.7) | 17.21<br>(0.06) |

Note : Figures in brackets denote percentage variations over the previous year.

Source: Reserve Bank of India Bulletin, January 1974, Page 131.

TABLE II  
Short-term Loans of the Public and Private Sector Banks Classified According to Size of Holdings

|                               | (Rs lakhs)          |                    |                      |                    |                   |                    |
|-------------------------------|---------------------|--------------------|----------------------|--------------------|-------------------|--------------------|
| Size of holdings              | Public sector banks |                    | Private sector banks |                    | Total             |                    |
|                               | No. of Accounts     | Amount outstanding | No. of Accounts      | Amount outstanding | No. of Accounts   | Amount outstanding |
| Up to 2.5 acres               | 254115<br>(45.0)    | 1885.67<br>(24.0)  | 175273<br>(75.3)     | 790.69<br>(49.0)   | 429388<br>(53.9)  | 2646.36<br>(28.3)  |
| Above 2.5 acres up to 5 acres | 135445<br>(24.0)    | 1605.00<br>(20.70) | 29380<br>(12.6)      | 223.17<br>(13.8)   | 164825<br>(20.7)  | 1828.17<br>(19.6)  |
| Above 5 acres up to 10 acres  | 91458<br>(16.2)     | 1614.94<br>(20.9)  | 17824<br>(7.7)       | 205.30<br>(12.7)   | 109282<br>(13.7)  | 1820.24<br>(19.5)  |
| Above 10 acres                | 83278<br>(14.8)     | 2656.65<br>(34.4)  | 10270<br>(4.4)       | 395.71<br>(24.5)   | 93548<br>(11.7)   | 3052.36<br>(32.6)  |
| Total :                       | 564296<br>(100.0)   | 7732.26<br>(100.0) | 232747<br>(100.0)    | 1614.87<br>(100.0) | 797043<br>(100.0) | 9347.13<br>(100.0) |

Source : Reserve Bank of India Bulletin, August 1974, Page 1430.

ler farmer more—in percent-  
age terms—than has been the  
case with the public sector  
banks.

While the deposits of the  
private sector banks have raced  
ahead at a faster speed than  
that of the public sector banks,  
they have not tended to in-  
crease their profits at the same

pace. This may be due to the  
developmental expenditure in-  
volved which is bound to in-  
crease when the branches are  
opened in unbanked areas.  
From 1970 to 1972, the yearly  
profit ruled between Rs 1.14  
crores and Rs 1.67 crores  
(Table IV).

The figures regarding the

working of the banks both in  
the public and the private sec-  
tors for 1974 are indeed reveal-  
ing. Separate data in regard  
to both the categories of banks  
are not available at the time  
of writing but there is a clear  
indication that 1974 was a  
year when most of the banks  
in the public sector were not

able to maintain the rate of  
growth in their deposits which  
had been seen in the earlier  
four years. On the other hand  
the year 1974 turned out to be  
a much better one for the pri-  
vate sector banks which con-  
tinued to scale new heights in  
regard to mobilisation of de-  
posits.

TABLE IV  
Income, Expenditure and profits of 39 other Indian Scheduled Commercial Banks

(Rs Inlacs)

|                                            | 1970  | 1971  | 1972  | Variation during |                 |                |                 |
|--------------------------------------------|-------|-------|-------|------------------|-----------------|----------------|-----------------|
|                                            |       |       |       | 1971 over 1970   |                 | 1972 over 1971 |                 |
|                                            |       |       |       | Amount           | per cent change | Amount         | per cent change |
| <b>Income</b>                              |       |       |       |                  |                 |                |                 |
| 1. Interest and Discount                   | 28,15 | 37,11 | 48,35 | + 8,96           | + 31.8          | + 11,24        | + 30.3          |
| 2. Commission, Exchange and Brokerage      | 3,12  | 3,83  | 4,86  | + 71             | + 22.8          | + 1,03         | + 26.9          |
| 3. Other Earnings                          | 1,60  | 1,83  | 2,24  | + 23             | + 14.4          | + 41           | + 22.4          |
| Total (1+2+3)                              | 32,87 | 42,77 | 55,45 | + 9,90           | + 30.1          | + 12,68        | + 29.6          |
| <b>Expenditure</b>                         |       |       |       |                  |                 |                |                 |
| 4. Interest paid on Deposits, etc.         | 16,01 | 20,94 | 28,14 | + 4,93           | + 30.8          | + 7,20         | + 34.3          |
| 5. Salaries, Allowances and Provident Fund | 11,72 | 14,78 | 18,92 | + 3,06           | + 26.1          | + 4,14         | + 28.0          |
| 6. Other Expenditure                       | 4,00  | 5,38  | 7,02  | + 1,38           | + 34.5          | + 1,64         | + 30.4          |
| Total (4+5+6)                              | 31,73 | 41,10 | 54,08 | + 9,37           | + 29.5          | + 12,98        | + 31.6          |
| 7. Balance of Profit                       | 1,14  | 1,67  | 1,37  | + 53             | + 46.5          | - 30           | - 18.0          |

Source : Reserve Bank of India Bulletin, January 1974, Page 135.



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# Foreign banks, a constructive presence

WITH THE expansion of banking activities in our country, foreign banks had also gained in stature. This was evident from the rate of growth in deposits. In 1960-61, the 15 foreign banks in this country had total deposits of the order of Rs 217.85 crores; by 1970-71, they had more than doubled to Rs 552.07 crores. In the last week of October 1974, the deposits (time + demand) had risen to Rs 810.73 crores though the number of banks had fallen to 13 only. But the total deposits of all scheduled commercial banks in this country in the last week of October 1974 were as high as Rs 10,395.50 crores. The foreign banks' deposits thus were a little less than eight per cent of the total deposits.

## RBI supervision

Like all other scheduled banks, their working operations were also governed by the Reserve Bank of India. It means that they had also to fulfil the minimum conditions laid down by the central banking authority. For example, the investments in government securities as a percentage of aggregate deposits in the case of foreign banks at 32.49 per cent (on October 25, 1974) was higher than the corresponding percentage at 23.70 for all scheduled commercial banks taken together. Similarly, the bank credit as a percentage of total deposits was higher in the case of foreign banks than was the case with all commercial banks (77.23 per cent for foreign banks as against 68.10 per cent for all commercial banks). Herein lay the speciality of the foreign banks. Included in bank credit were "bills purchased and discounted both within the country and abroad". In relation to aggregate deposits, the business relating to the purchasing and discounting of foreign bills for foreign banks was higher than that of all commercial banks. While the deposits of foreign banks constituted one-thirteenth of all the commercial

banks, the foreign bills discounted were one-third of the total. It was because of this predominant factor that the foreign banks had not been nationalised five years ago. The government of India genuinely believed that such a measure would have an evil effect on the foreign bill market which, in turn, would hurt foreign trade.

## Slower growth

That the rate of growth in deposits of foreign banks was slower than that of both the nationalised and non-nationalised banks was a well-known fact. The reason for this lay in the fact that foreign banks were not as a rule permitted to open new branches in areas which could be very well served by Indian banks. This was indeed understandable. Hence the growth in deposits in the case of foreign banks became a function of the work-load which the existing branches could sustain.

An interesting element in the working results of foreign banks was that due to their ability to offer highly efficient and personalised service, they were able to show handsome profits every year. For example, profits of foreign banks in 1972 at Rs 3.90 crores were a shade better than the profits of the State Bank of India even though the deposits of the foreign

banks were less than half of that of the State Bank. This in itself was a measure of the improved performance of foreign banks.

Some of the foreign banks had in recent years shown quite a vigorous rate of growth in their operations. Some of them had even taken upon themselves the responsibility of advising foreign clients in regard to possibilities of investments in our country. Their popularity was on the increase also because of these specialised services which they were able to offer.

## Merchant banking

Some of the foreign banks are building for themselves a leading position in merchant banking in this country. They are also running investment advisory services for their clients in other countries who may wish to do business in India, as well as for their clients in this country. The Finance ministry and the Reserve Bank could, therefore, with advantage adopt an imaginatively responsive policy towards them so that they may serve as a channel for the flow of foreign capital into our economy. Right now the great banking institutions of the west are being sought after by oil-exporting countries in need of investment outlets for their oil revenue. Our government, acting solely in our country's interests, would be well advised

to seek to interest these banks in exploring investment possibilities in our economy for some of the petro-dollars handled by them.

## Mulish ignorance

It is of course far too absurd for our government to go on mulishly ignoring opportunities for developing one or more international financial centres in our country. Even our country's foreign exchange difficulties or its strict exchange control are not enough by themselves to justify the government's reluctance to take the initiative in this matter. Other countries too have balance of payments problems, but this has not made it necessary for them to restrict artificially the activities of foreign banks in their countries or of their own banks abroad. As a matter of fact, the building up of a two-way traffic in banking across national frontiers could in itself be helpful towards mitigating a country's balance of payments difficulties. In any case, in the current context of the scope that exists for international banking to activate the flow of capital across national frontiers, it would be a wholly justifiable enterprise on the part of the government of India to frame a policy which encourages both foreign banks operating in our country, and our own banks which would go out into the world to play their role in international banking.

## The South Indian Bank Limited

The South Indian Bank Limited was incorporated on January 25, 1929, by a group of prominent businessmen of Trichur in Kerala state. With 44 shareholders and a paid-up capital of only Rs. 22,000, it started functioning on January 28, 1929. Thanks to the excellent support and co-operation it received from the public, the bank had slow but steady growth. By

1944, its paid-up capital grew up to Rs. 0.77 lakhs and by 1947 it rose to Rs. 8.75 lakhs. The deposits of the bank also increased correspondingly. The progress statement given below tells the story of its growth to its present position as the largest scheduled commercial bank in the private sector, registered in Kerala.

The bank has now a net-work

of branches in the states of Kerala, Tamilnadu, Karnataka and Pondicherry and a branch in New Delhi. It has plans for opening new branches in all the metropolitan cities of India. With a view to extending banking facilities to villages, the bank has opened a large number of branches in places which previously had no banking offices.

### Progress Chart

|                            | 1929     | 1939     | 1959        | 1969         | 30-6-1974    |
|----------------------------|----------|----------|-------------|--------------|--------------|
| Paid-up capital & Reserves | 23,000   | 90,000   | 21,59,000   | 30,60,000    | 35,01,000    |
| Deposits                   | 2,51,000 | 6,47,000 | 5,57,90,000 | 13,06,17,000 | 24,64,75,000 |
| Advances                   | 2,22,000 | 5,81,000 | 3,38,82,000 | 9,50,10,000  | 16,51,20,000 |
| Branches                   | 1        | 5        | 30          | 78           | 117          |
| Number of employees        | 3        | 28       | 373         | 891          | 1,071        |
| Total working capital      | 3,11,000 | 9,13,000 | 6,76,28,000 | 16,36,51,000 | 28,60,75,000 |

# Foreign Banks—Business in India

(Amount in lakhs of rupees)

| Last Friday/Friday | Num-<br>ber of<br>report-<br>ing<br>banks | Demand and time liabilities                                      |         |                                                   |        |                                  |                                             |                 |                                       |                                      |                                                           |                                            |
|--------------------|-------------------------------------------|------------------------------------------------------------------|---------|---------------------------------------------------|--------|----------------------------------|---------------------------------------------|-----------------|---------------------------------------|--------------------------------------|-----------------------------------------------------------|--------------------------------------------|
|                    |                                           | Aggre-<br>gate<br>Depo-<br>sits<br>(5+10)                        | Demand  |                                                   |        |                                  |                                             | Time            |                                       |                                      |                                                           |                                            |
|                    |                                           |                                                                  | Total   | Deposits                                          |        | Borrow-<br>ings<br>from<br>banks | Others                                      | Total           | Deposits                              |                                      | Borrow-<br>ings<br>from<br>banks                          | Other                                      |
|                    |                                           |                                                                  |         | Inter-<br>bank                                    | Others |                                  |                                             |                 | Inter-<br>banks                       | Others                               |                                                           |                                            |
|                    |                                           |                                                                  |         |                                                   |        |                                  |                                             |                 |                                       |                                      |                                                           |                                            |
|                    | 1                                         | 2                                                                | 3       | 4                                                 | 5      | 6                                | 7                                           | 8               | 9                                     | 10                                   | 11                                                        | 12                                         |
| 1960-61            | 15                                        | 217,85                                                           | 116,72  | 7,62                                              | 96,25  | 7,72                             | 5,13                                        | 131,52          | 3,04                                  | 121,60                               | 4,48                                                      | 2,40                                       |
| 1965-66            | 15                                        | 342,42                                                           | 162,72  | 2,67                                              | 137,42 | 15,68                            | 6,96                                        | 228,01          | 43                                    | 212,01                               | 13,20                                                     | 2,38                                       |
| 1969-70            | 15                                        | 491,39                                                           | 201,32  | 3,99                                              | 169,41 | 14,64                            | 13,28                                       | 330,47          | 82                                    | 321,99                               | 4,00                                                      | 3,67                                       |
| 1970-71            | 15                                        | 552,07                                                           | 226,38  | 3,96                                              | 194,14 | 10,50                            | 17,78                                       | 372,43          | 37                                    | 357,93                               | 40                                                        | 13,73                                      |
| 1971-72            | 14                                        | 627,67                                                           | 244,18  | 4,31                                              | 214,26 | 5,66                             | 19,96                                       | 424,72          | 14                                    | 413,41                               | —                                                         | 11,17                                      |
| 1972-73            | 13                                        | 690,63                                                           | 265,70  | 4,09                                              | 226,93 | 8,61                             | 25,17                                       | 475,08          | 67                                    | 463,70                               | 20                                                        | 10,51                                      |
| 1973-74            | 13                                        | 769,79                                                           | 317,35  | 6,12                                              | 263,98 | 7,29                             | 39,97                                       | 517,02          | 13                                    | 505,81                               | —                                                         | 11,07                                      |
| October 25, 1974   | 13                                        | 810,73                                                           | 329,27  | 8,17                                              | 271,72 | 10,29                            | 39,09                                       | 549,96          | 13                                    | 539,01                               | 15                                                        | 10,66                                      |
|                    |                                           |                                                                  |         |                                                   |        |                                  |                                             |                 |                                       |                                      |                                                           |                                            |
|                    | Borrowings from Reserve Bank              |                                                                  | Reserve | Borrowings from State Bank and/or a notified bank |        |                                  | Cash in hand and balances with Reserve Bank |                 |                                       | Balanc-<br>es with<br>other<br>banks | Invest-<br>ments<br>in Gov-<br>ernment<br>securi-<br>ties | Money<br>at call<br>and<br>short<br>notice |
|                    | Total                                     | Against<br>usance<br>bills<br>and/or<br>promi-<br>ssory<br>notes | Others  | Total                                             | Demand | Time                             | Total                                       | Cash in<br>hand | Balanc-<br>es with<br>Reserve<br>Bank | in<br>current<br>account             |                                                           |                                            |
|                    | 13                                        | 14                                                               | 15      | 16                                                | 17     | 18                               | 19                                          | 20              | 21                                    | 22                                   | 23                                                        | 24                                         |
| 1960-61            | 22,77                                     | 21,67                                                            | 1,10    | 86                                                | 86     | —                                | 12,18                                       | 2,42            | 9,76                                  | 1,40                                 | 40,46                                                     | 12,19                                      |
| 1965-66            | 1,14                                      | 10                                                               | 1,04    | 11,19                                             | 5      | 11,14                            | 16,36                                       | 3,55            | 12,80                                 | 2,56                                 | 94,27                                                     | 15,51                                      |
| 1969-70            | 13,40                                     | 1,19                                                             | 12,21   | 8,86                                              | 14     | 8,72                             | 20,39                                       | 5,16            | 15,22                                 | 3,91                                 | 126,10                                                    | 11,06                                      |
| 1970-71            | 30,67                                     | 1,98                                                             | 28,69   | 8,14                                              | 10     | 8,04                             | 24,40                                       | 5,52            | 18,88                                 | 6,01                                 | 152,61                                                    | 8,99                                       |
| 1971-72            | 14,43                                     | —                                                                | 14,43   | 9,29                                              | —      | 9,29                             | 27,05                                       | 6,13            | 20,93                                 | 7,11                                 | 171,45                                                    | 15,94                                      |
| 1972-73            | 2,30                                      | 40                                                               | 1,90    | 10,29                                             | 76     | 9,53                             | 28,96                                       | 6,89            | 22,07                                 | 8,92                                 | 199,20                                                    | 31,78                                      |
| 1973-74            | 39,29                                     | 5,47                                                             | 33,82   | 12,87                                             | 4,68   | 8,19                             | —                                           | 7,31            | —                                     | 8,18                                 | 234,70                                                    | 6,91                                       |
| October 25, 1974   | 421,10                                    | 10,50                                                            | 10,60   | 9,59                                              | 1,49   | 8,11                             | --                                          | 8,48            | —                                     | 10,38                                | 263,40                                                    | 5,77                                       |
|                    |                                           |                                                                  |         |                                                   |        |                                  |                                             |                 |                                       |                                      |                                                           |                                            |
|                    | Assets                                    |                                                                  |         |                                                   |        |                                  |                                             |                 |                                       | 19                                   | 23                                                        | 25                                         |
|                    |                                           |                                                                  |         |                                                   |        |                                  |                                             |                 |                                       |                                      |                                                           |                                            |
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# **SERVICE WORLD-WIDE MERCANTILE BANK LIMITED**

**(Incorporated in England — Liability of Shareholders Limited)**

Undertakes banking transactions of all kinds through its net-work of branches and correspondents located in all main financial centres of the world.

In India we shall be happy to give you personal attention at any of our many branches in Bombay, Calcutta, Madras, New Delhi and Delhi.

52/60, Mahatma Gandhi Road, Bombay-1

8, Netaji Subhas Road, Calcutta-1

31, Dalhousie Square, Calcutta-1

16, North Beach Road, Madras-1

E-Block, Connaught Place, New Delhi-1

Chandni Chowk, Delhi-6.

## **THE BRITISH BANK OF THE MIDDLE EAST**

**(Incorporated in England—Liability of Shareholders Limited)**

**Dr. Dadabhoy Naoroji Road, Fort, Bombay-1**

### **MEMBERS OF THE HONGKONG BANK GROUP**

#### **WHICH INCLUDE**

**THE HONGKONG AND SHANGHAI BANKING CORPORATION**

**THE HONGKONG BANK OF CALIFORNIA**

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# Banks and personalised service

An interview with Mr J. Krishnatrey, Chairman, the Narang Bank of India Ltd.

**Q.** Do you think that since 1969 the private sector banks have progressed at a much faster pace than the nationalised banks? If so, what are the basic reasons for this improved performance?

**A.** Yes. It is true that the banks in the private sector have progressed at a much faster pace than the nationalised banks. The deposit mobilisation by the private sector banks since 1969 has, in percentage terms, been far better than that of nationalised banks. There are a number of reasons for it and the most important of them, in my view, is the personalised service which the private sector banks are in a position to render to the public. This in turn is made possible by better management of the banks' affairs by their boards.

## Management by objectives

It is widely known that the principle of management by objectives is being more effectively observed by the boards of the private sector banks than the boards of nationalised banks. The nationalised banks have certainly not been able to set the pattern of conducting management by objectives, as stated above, which is so vital for promotional purposes. That is why it has not been possible for them to show better results and render better public service, etc. I give highest importance to the personalised service which has helped private sector banks to grow and this has been my personal experience too.

As you are aware, I took over the chairmanship of the Narang Bank of India Ltd., in November last year. Earlier to this, for some period of time I was with Reserve Bank of India, where during a period of three to four months, numerous complaints about the working of the nationalised banks, involving

Mr S.P. Chopra, Senior Assistant Editor, *Eastern Economist*, interviewed Mr Krishnatrey on February 26, 1975.

a variety of issues such as disregard of the instructions of the customers and the quality of services, etc. came to my knowledge.

Also, the private sector banks have put up an improved performance because of the special facilities which they are able to offer to the clientele. For example, special incentive schemes for the customers and the staff have been formulated by most of the private sector banks. Moreover, the private sector banks are permitted to offer a better rate of interest on deposits—1/4 per cent to 1/2 per cent above those offered by the nationalised banks under the differential rate scheme of the Reserve Bank of India, which was introduced in the past, suspended for a while and re-introduced recently. Obviously, the Reserve Bank of India has found that smaller banks find it difficult to compete with medium size and big banks in attracting deposits because of higher rate of interests. The scheme benefits the private sector banks only and that has been so in the past also, since the nationalisation of 14 commercial banks.

**Q.** Is this 1/4 to 1/2 per cent premium a big enough incentive?

**A.** Yes, but that is not all, although it is certainly a big incentive for the customers. For example, during the past four months, the deposit growth-rate of the Narang Bank of India Ltd. has been 8 to 9 per cent and the differential rate scheme has much to do with this impressive rate of deposit mobilisation. Then the private sector banks do offer special facilities

to the clients such as payment of interest on their long-term deposits on monthly basis; easy loan facilities in case of need, etc.

**Q.** What kind of incentives are provided to the staff? Is't a small bank in the C category paying lower emoluments to a worker in relation to an A category bank?

**A.** In a 'C' class bank, the basic wage may be lower than that of an 'A' Class bank but the rate of dearness allowance is the same as it is linked with the consumer price index. In the Narang Bank of India Ltd., incentive schemes are still to be evolved but in another private sector banks in

Uttar Pradesh which I managed for about five years, some incentive schemes were mooted. In some of the banks, I understand, merit certificates are given to outstanding workers. The workers are also given lumpsum payments for mobilisation of deposits, in approved proportions.

**Q.** Both the public and private banks are governed by the Reserve Bank of India in regard to advances. Do the private banks get any preferential treatments in this regard?

**A.** No. Certainly not. But the banks in private sector are in a position to take quick decisions on matters concerning advances. A company

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which came to me for accommodation up to Rs 15 lakhs, preferred to deal with a small bank even though it had its regular banking in a nationalised bank with Head Office in Calcutta. This bank would need minimum of five to six weeks to give its decision. While I gave my decision within half-an-hour's time. Herein lies the superiority of the private sector banks. Even in the case of a nationalised bank with head office in Delhi, red tap would delay the decision unduly.

#### Prompt service

It is because of this promptness in service that this small bank is getting some of the most sought after accounts in this city.

Let me recount to you another incident from my personal experience. In a town in Uttar Pradesh where I was General Manager of a private sector bank, there were three branches of public sector banks and our bank in the same block of buildings. Both in regard to deposits and advances, this private sector bank scored over all the three branches of public sector banks. This has mainly been due to, as I observed a little while ago, efficient handling of various portfolios of the bank.

**Q. This is indeed very encouraging. Is it your daily experience?**

**A. Yes.** Here is another application from another business firm of repute for accommodation up to five lakhs of rupees. Clearance in this regard has been given within five minutes. If the same party had gone to the public sector bank, who would have even bothered about the need of the customer?

**Q. You have experience of the working of both the public and private sector banks. Do you think, the management of private sector banks is more economical?**

**A. Yes.** Private sector banks minimise wastage through control on expenditure and other measures such

as devoting personal attention to explore the possibilities of cutting down avoidable and wasteful expenditure. For example this bank has four branches and for each one of them, ceiling on expenditure has been fixed. I wonder if such a step could possibly be taken by any nationalised bank in the country.

**Q. What are the total deposits of this bank?**

**A. At the end of 1974, the total deposits were Rs 86 lakhs.**

**Q. Why have you been sent by the Reserve Bank to manage this bank?**

**A. To give it a professional look. The board of directors has been changed and it is now being run in a business-like manner.**

**Q. Are you also under compulsion to advance funds to priority sectors as is the case with the public sector banks?**

**A. Yes.** we also have our allocation to these priority sectors. We abide by the Reserve Bank directives in this behalf.

**Q. Do you think the private sector banks have a part to play in our economy and that they should not have been nationalised?**

**A. Yes.** I think there should be competition between the two sets of banks. Only in this way banking can expand in this country in a healthy manner. In fact it would be no exaggeration if I say that the banks in the private sector have/had been having a better regional/area approach and have been/and are very useful to the community they are serving. Thus, a man in the street is being looked after and cared for in a much better way by the private sector banks than nationalised banks.

**Q. Supposing in another five years, these private sector banks overtake some of the public sector banks in deposits. What happens then?**

**A. I think, the other day the union Finance minister, Mr C. Subramaniam, made**

it clear in Parliament that the government had no intention of nationalising them. This is indeed a very healthy decision. Nationalising all the banks is not going to serve any useful purpose. 84 per cent of all the bank deposits are already nationalised. Of the balance, 11 per cent is commanded by the foreign banks. So the share of the private Indian banks is certainly very small.

**Q. What is the future of these private sector banks?**

**A. Very good future.** If I am not divulging any secret, most of the people in the banking circle feel that it may not be good to eliminate the private sector banks and no worthwhile purpose would be served, if that is done.

From time to time much thought has been given to the question of merger of smaller banks with the bigger one. But it is felt that so long as these banks are run according to the directions of the central banking authority and in consonance with national objec-

tives, their separate existence should continue and will be helpful to the nation and this is my personal view too.

**Q. In the light of your experience in banking, will you suggest that the number of private banks should be increased or should be stay put?**

**A. As it is, there is no possibility of increasing the number of private sector banks. At best, there is some scope for consolidation. For example, there are many unit banks—banks which have only one operating office. There are about five or six such banks. They could certainly be merged with other banks. Similarly, the non-scheduled banks should be merged with other banks. The unit banks—a majority of them—are not viable.**

Then there was a proposal to merge the private sector banks operating in UP. It appeared to be a good proposal though for some unknown reasons it did not come through. Personally, I am in favour of consolidation.

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# Private sector banks: vigorous growth

Jacob Kalliat, B.A. B.L.  
Chairman, South Indian Bank Ltd

MORE than five years have elapsed since the 14 major banks in the country have been nationalised. More than 80 per cent of the organised banking is now in the nationalised sector. There has been a great deal of discussion on the working of the nationalised banks and it is good to find that nationalised banks have been able to keep up the tempo of growth during the past five years. It would appear, however, that the services rendered by the banks in the non-nationalised sector are not being properly highlighted. The banks in the non-nationalised sector are also showing vigorous life and substantial progress. The table alongside indicates the trend of growth of banks in the private sector as compared to banks in the other sectors.

It is apparent from the above statement that these non-nationalised banks are also forging ahead at a rate even faster than those of the nationalised banks.

What is actually the difference between nationalised and non-nationalised banks? Non-nationalised banks are stated to be in the private sector, but their activities are, to a very large extent, controlled, directed and guided by the central banking authority. In fact, it is not correct to call them banks in the private sector. The rate of interest the banks can allow on deposits are fixed, the rate of interest they can charge on advances also are to some extent restricted. The nature and type of advances these banks could make are defined; similar is the case with the securities they could accept, the extent to which they could grant advances to particular sectors, and the limits that could be sanctioned—are all regulated from time to time. The emoluments payable to those working in banks are also regulated by awards and agreements. If the idea of leaving certain banks in the

private sector was to make a comparative study of the banks in the public and private

## Trend of growth of Banks (in crores)

|                        | Deposits on |           |
|------------------------|-------------|-----------|
|                        | 18-7-1969   | 30-6-1974 |
| State Bank Group       | 1259.60     | 3007.80   |
| Nationalised banks     | 2627.40     | 5927.00   |
| Other scheduled banks* | 274.10      | 919.30    |
| Foreign banks          | 469.20      | 796.50    |
|                        | 4630.30     | 10650.60  |
| Non-scheduled banks    |             | 17.67     |

\* Does not include deposits of 6 banks which have become scheduled banks subsequent to 18-7-1969.

sectors, these restrictions which make the activities of the private sector banks very much restricted leave little room or scope for such comparative study.

When legislation is brought in, taking into account all-India consideration, government financial policy, etc., the interests of the individual banks are sometimes sacrificed. It is very often forgotten that all the big banks now functioning in the country, under the nationalised sector, have been at a time very small banks with small resources. It has been possible for those banks to develop and grow into formidable financial institutions of the country because they were able to direct the activities of those institutions more or less freely, changing its policies according to its individual requirements and without jeopardising the larger interests of the country.

When general regulation and legislations are brought in, individual banks with comparatively small resources find it very difficult to adjust their activities in such a manner as to enable them to grow fast. Regulations and restrictions may be necessary in a controlled economy. But these regulations and restrictions should be imposed in such a manner that the smaller institutions are allowed to live and prosper. Greater consideration will have to be shown to the smaller institutions while general policies are enunciated. It is not proposed here to discuss in detail the specific problems facing the bank to represent or the banks in general. But when private sector banks are allowed to function, they should be given some amount of freedom to frame their own policies as long as they are not detrimental to the general interests of the country as a whole.

## Vijaya Bank Ltd

Established during the year 1931 in Mangalore as a small bank by a few enthusiastic and enterprising farmers of South Kanara District of Karnataka state, the growth of the Vijaya Bank was very slow for 30 years. Till 1944, the area of operation was limited mainly to one district of Karnataka state i.e., South Kanara. The first branch outside the state was opened during 1944 at Bombay. The total deposits of the bank stood at Rs. 1.44 crores at the end of 1961 and total number of branches was only 21. The years 1959, 1960 and 1961 were the critical years for the Bank. It was even suggested at that time that the bank should be merged with some other bigger bank.

After the present chairman, Mr. M. Sunder Ram Shetty, became Honorary Chairman in May, 1962, the Bank gathered strength and momentum. Mr Shetty successfully negotiated the merger of Devanga Bank in 1963. Later, a series of mergers of eight more banks took place during the period 1963-67. By the end of 1969, the bank had progressed in all directions taking its total deposits to Rs. 13.2 crores and providing additional employment to more than 800 persons.

During the year 1969, when Mr Shetty became full-time Chairman, the banks were brought under social control by the overnment. The Bank's

Administrative Office was shifted to Bangalore. During the course of these five years i.e., from 1969 to 1973 the deposits have increased by about 515% i.e., from Rs. 13.2 crores to Rs. 81.13 crores. Total deposits of the bank at the end of November 1974 was Rs. 90.35 crores.

The bank obtained a licence to deal in foreign currencies in the year 1971. It has already established account relationship and agency arrangements with correspondents abroad and is now fully equipped to deal in all kinds of foreign exchange business.

## Progress At a Glance

(Rupees in lakhs)

| Year                | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 |
|---------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Capital             | 9.1  | 9.1  | 9.2  | 10.8 | 11.0 | 11.1 | 13.8 | 13.8 | 20.2 | 43.8 | 43.9 | 59.6 | 65.3 |
| Reserves            | 3.1  | 3.2  | 3.4  | 3.8  | 4.0  | 5.0  | 6.0  | 7.0  | 8.0  | 16.0 | 26.0 | 36.0 | 45.0 |
| Deposits            | 144  | 181  | 233  | 397  | 566  | 843  | 1206 | 1321 | 1871 | 2752 | 4364 | 5886 | 8113 |
| Advances            | 98   | 114  | 154  | 246  | 373  | 550  | 804  | 882  | 1301 | 1754 | 2584 | 3610 | 5244 |
| Net profits         | 0.3  | 1.6  | 0.8  | 0.9  | 1.7  | 1.7  | 1.8  | 1.9  | 4.6  | 8.5  | 14.9 | 17.2 | 14.6 |
| Dividend            | 2%   | 5%   | 5%   | 5%   | 6%   | 6%   | 6%   | 6%   | 8%   | 10%  | 12%  | 12%  | 12%  |
| Number of branches  | 21   | 21   | 26   | 52   | 55   | 63   | 87   | 89   | 114  | 126  | 141  | 184  | 247  |
| Number of employees | 161  | 176  | 222  | 421  | 503  | 689  | 919  | 982  | 1160 | 1462 | 1896 | 2506 | 3246 |

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# Towards social objectives

R. C. Suneja

Assistant General Manager, Oriental Bank of Commerce Ltd.

UNDER THE impact of national economic problems private sector banking is undergoing a process of transformation in all dimensions of operation thereby strengthening the banking system. In fact, there was full awareness on the part of policy makers of bank nationalisation that stubborn and enormous national economic problems such as concentration of economic power and skewed income distribution, unemployment, regional imbalances, inflation and production stagnation cannot be solved by public sector banks all on their own. Bank nationalisation merely aimed at harnessing the resources of banking system for the purpose of development with social justice. Even at the time

of nationalisation, the response of the banks in private sector to the multifarious economic needs of the community were not found to be halting or fitful. While spelling out the priorities and objectives of nationalisation the authors were aware of the leading role that the private sector banks could play and had in mind what was expected of them and had the policy framework within which the private sector banks could operate with the following background.

At the time of nationalisation in 1969, out of 89 commercial banks 73 were scheduled and sixteen were non-scheduled. Of the 73 scheduled commercial banks, fifteen were foreign banks i.e. banks

which were incorporated outside India, of these thirteen are operating.

On July 19, 1969 Indian scheduled banks with deposits of Rs 50 crores and above were nationalised. With this the public sector banks consist of the State Bank of India and its seven subsidiaries and fourteen nationalised banks. About 83 per cent of aggregate deposits and credit and 80 per cent of the number of offices are in the hands of the government. In the private sector there are 36 Indian scheduled banks which account for about 6 per cent of total deposits. Foreign banks are mostly concentrated in four metropolitan cities namely, Bombay, Calcutta, Delhi and Madras.

if sizable financial resources are made available and a sound organisational set-up is created. This is mainly because of our country's vastness and the spread of farmers over 5,67,000 villages along with their small and scattered holdings.

Apart from the direct finance, the commercial banks have found it possible to help agriculture by providing finance to electricity boards to enable them to help energisation of minor irrigation sources (Rs 83.81 crores), by financing distribution of fertilisers (Rs 43.83 crores) and other agencies concerned with the development of agriculture (Rs 33.83 crores) in addition to financing cooperatives to the extent of Rs 16.64 crores in

## Advances to Agriculture and other Hitherto Neglected Sectors by Public Sector Banks

|                                           | June 1969    |                    | June 1974    |                    |
|-------------------------------------------|--------------|--------------------|--------------|--------------------|
|                                           | No. of A/cs. | Amount Outstanding | No. of A/cs. | Amount Outstanding |
|                                           |              | Rs crores          |              | Rs crores          |
| 1. Agriculture :                          |              |                    |              |                    |
| (a) Direct Finance*                       | 160020       | 40.20<br>(1.4)     | 1630127      | 391.58<br>(6.0)    |
| (b) Indirect Finance                      | 4461         | 122.09<br>(4.1)    | 208651       | 193.10<br>(2.9)    |
| 2. Small scale industries**               | 50850        | 251.10<br>(8.5)    | 201409       | 868.33<br>(13.2)   |
| 3. Road transport operators               | 2324         | 5.49<br>(0.2)      | 63470        | 83.89<br>(1.3)     |
| 4. Retail trade and small business        | 33241        | 19.37<br>(0.6)     | 320700       | 117.68<br>(1.8)    |
| 5. Professional and self-employed persons | 7769         | 1.91<br>(0.1)      | 180173       | 29.74<br>(0.5)     |
| 6. Education                              | 1477         | 0.80<br>(—)        | 11733        | 3.49<br>(0.1)      |
| Total (1 to 6)                            | 260162       | 440.96<br>(14.9)   | 2616263      | 1687.31<br>(25.7)  |
| Total advances by these banks             |              | 3016.76            |              | 2563.00            |

\* Excludes advances to plantations other than developmental finance.

\*\* No. of units.

Note : Figures within brackets indicate the percentage to total advances of these banks.

Six years are certainly a short period for judging the performance of banks in regard to the objectives of bank nationalisation and of private sector banks. However, the structure of the banking system as it exists today as a result of collaboration of private sector and public sector banks can be said as truly great.

The following performance review of the public/private sector banks would be of interest to all concerned.

The principal objectives of agricultural development in India's successive five-year plans have been to achieve self-sufficiency in foodgrains, to increase agricultural production to meet the needs of industry and export, to diversify the rural economy with stress on animal husbandry, dairying and fisheries and to improve the levels of living of the farming community who form the bulk of the population.

Planning for agriculture itself is extremely difficult even

## The New Bank of India Ltd

The year 1974 was a year of creditable achievements for the New Bank of India Ltd., as it crossed its deposit target of Rs. 100 crores. The Bank reported all-round progress in almost all spheres of its activities exceeding the previous year's record performance.

The deposits reached Rs. 109.82 crores at the end of 1974, against Rs. 84.46 crores at the end of 1973. This represented a growth of 30.02 per cent which compared very favourably with the all-India average.

Advances at Rs. 60.46 crores represented an increase of about 18 per cent over the preceding year.

At the end of 1974, the New Bank of India Ltd., was the second largest bank among the non-nationalised banks in the country.

During 1974, the Bank issued right shares at par in the ratio of 1 for 2, thus raising the paid-up capital from Rs 33.57 lakhs to Rs. 50.35 lakhs. Reserves and carry forward stood at Rs. 74.64 lakhs to which provisions out of the profits for 1974 were still to be added.

The Bank now serves its constituents through its network of 171 branches spread all over India. During 1975 the Bank expects to raise the number of its branches to 200.



the backward areas where the cooperative structure has been found to be weak.

Minor irrigation purposes accounted for a major portion of the developmental loans

provided by the public sector banks (74.2% of the accounts) followed by loans for acquiring tractors and other farm machinery (9.6% of the number of accounts and 27.8 per cent of the outstandings). In the

case of the private sector banks loans for tractors constituted the bulk (33.9%) while loans for plantations came next (28.6%).

In order to help improve the economy of the agriculturists, loans have been advanced for activities allied to agriculture such as dairying, poultry farming, piggery, bee-keeping, fisheries etc. These loans have accounted for Rs 19.67 crores in 42872 accounts amongst the public and private sector banks. Provision of finance for allied activities is an important step to promote employment and economic viability of individual farmers.

#### Farm finance

The commercial banks in the public and private sectors, have helped 16,31,561 persons with agricultural finance. The average short-term loan per account worked out to Rs 594 in the case of private sector banks as against Rs 1370 in the case of public sector banks. On the other hand, the average medium/long term finance per account worked out to Rs 7306 in the case of private sector banks as against the corresponding figure of Rs 4691 in the case of the public sector banks.

The role of the public sector banks in the agricultural sector has widely varied from region to region. While the southern region accounted for the bulk of the accounts (57.4 per cent) as well as in outstandings (32.2 per cent), the share of the north eastern region has been the lowest (0.6 per cent of accounts and 0.3 per cent of outstandings). The western region accounted for 14.9 per cent and 28.3 per cent of the accounts and outstandings respectively. State-wise, maximum advances have been granted in Maharashtra (18.1 per cent) followed by U.P. (13.1 per cent), Tamil Nadu (12.7 per cent), Gujarat (10 per cent), Andhra Pradesh (9.5 per cent) and Karnataka (9.3 per cent). Public sector banks should lay greater stress, as a deliberate policy, on the developmental needs of the north-eastern sector and other backward areas in the country.

Of all the schemes formulated during post-nationalisation period Lead Bank scheme is indeed the most important. The success of nationalisation itself hinges on the success of the scheme. The Lead Bank scheme lays down inter alia that there has to be a coordinated approach

#### Scheduled Commercial Banks—Variations in Selected Items

(Rs crores)

|                                                     | Outstanding as on March 31, 1969 | Outstanding as on Jan. 17, 1975 (Provisional) |
|-----------------------------------------------------|----------------------------------|-----------------------------------------------|
| Demand deposits                                     | 1975.5                           | 4855.7                                        |
| Time deposits                                       | 2408.9                           | 6760.8                                        |
| Aggregate deposits                                  | 4384.4                           | 11616.5                                       |
| Borrowings from RBI                                 | 118.8                            | 79.8                                          |
| Cash and balances with RBI                          | 255.3                            | 813.6                                         |
| Investment in Govt. Securities                      | 1091.2                           | 2774.8                                        |
| Bank credit                                         | 3463.6                           | 8076.9                                        |
| Bills rediscounted under the new Bill Market Scheme |                                  | 168.1                                         |
| Gross bank credit (including bills rediscounted)    | 3463.6                           | 8245.0                                        |

#### Branch Expansion of Public/Private Sector Banks

|                                            | No. of offices as on 19.7.69 | Increase between 19.7.69 and 30.9.74 | Increase in number of offices in rural centres* | % of 5 to 4 |      |
|--------------------------------------------|------------------------------|--------------------------------------|-------------------------------------------------|-------------|------|
| 1                                          | 2                            | 3                                    | 4                                               | 5           | 6    |
| a. State Bank of India                     | 1571                         | 3143                                 | 1572                                            | 706         | 44.9 |
| b. Subsidiaries of SBI                     | 894                          | 1670                                 | 776                                             | 382         | 49.2 |
| c. 14 nationalised banks                   | 4168                         | 9213                                 | 5045                                            | 2507        | 49.7 |
| Total of Public Sector banks (a+b+c)       | 6633                         | 14026                                | 7393                                            | 3595        | 48.6 |
| d. Other Indian scheduled commercial banks | 1340                         | 3052                                 | 1712                                            | 746         | 43.6 |
| e. Foreign banks                           | 130                          | 131                                  | 1                                               | —1          | —    |
| f. Non-scheduled banks                     | 218                          | 124                                  | —94                                             | —10         | —    |
| Total of all commercial banks              | 8321                         | 17333                                | 9012                                            | 4330        | 48.0 |

\*Rural centres—Places with population upto 10000

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among banks both private sector and public sector to identify bankable propositions and formulate them into viable schemes which could help weaker sections of society.

The public sector banks have been designated as Lead Banks for various districts in the country. For the private sector banks there may not be lead regions under the scheme but they are equally enthusiastic about developing their business in the districts in the national interest and have contributed their effort in activating the District Consultative Committees where the role of each financial and non-financial institution is determined. The task of implementing the District Credit Plans is no doubt gigantic, yet the private sector banks have a coordinated approach in implementating them on the basis of mutual understanding.

#### Banking has come of age

To sum up, the Indian banking system has come of age. We have State Bank of India group, nationalised banks, other scheduled commercial banks, foreign banks, non-scheduled banks all with 17333 branches in addition to 25 state cooperative banks. To many of our friends abroad, accustomed to a few similar, highly centralised and controlled institutions or banking systems it may appear a hodge-podge. On the contrary we have a remarkably smooth, silent, efficient flow of banking business and interchange of information. We have welded our banking system in such a way that public pays little attention and actually knows little of many types and kinds of banks which make up our system. They know only that it functions and functions well.

# Save with grace

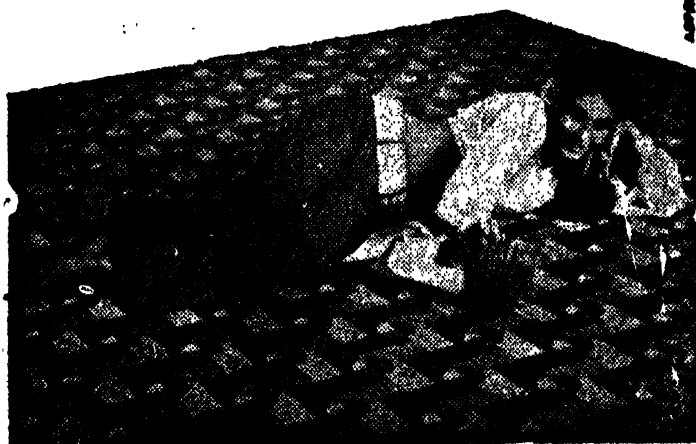
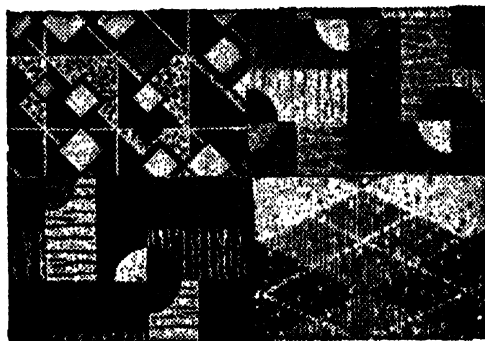
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# TRADE WINDS

## National Commission on Agriculture

THE NATIONAL Commission on Agriculture has submitted two interim reports to the union government on (i) Agricultural Price Policy, and (ii) certain important aspects of Marketing and Prices of Cotton, Jute, Groundnut and Tobacco. The Commission had earlier submitted 21 interim reports covering different aspects of agricultural development. With the submission now of two more reports, the series of interim reports is complete. The Commission is now engaged in drafting its final report. The more important recommendations made by the Commission in those two interim reports are briefly given below.

The Commission, in its interim report on Agricultural Price Policy, has indicated its approach to price policy for both food and commercial crops and the entire package of support price, procurement/purchase price, procurement and distribution of cereals and such aspects of food policy as are relevant to price policy. The report also deals with the arrangements for advising the government in the matter of agricultural price policy. The Commission has emphasised the need for assuring remunerative prices to the farmers with a view to encouraging investment in agriculture and adoption of modern technology. At the same time, it has stressed, the price policy should facilitate growth with stability and should be formulated keeping in view its impact on the economy as a whole.

In the other interim report,

the Commission has made a broad assessment of some aspects of the marketing structure for four important commodities, Cotton, Jute, Groundnut and Tobacco, in the light of likely trends in production and demand over the coming years and the prevailing patterns of market arrivals.

The Commission has noted that these commodities are subject to considerable year to year fluctuations in production and prices, which are harmful to sustained production effort, and that the middlemen through their hold on the market mechanism continue to exploit the farmers. It has suggested various measures to facilitate marketing of these commodities and to stabilise their prices, so that, on the one hand, the cultivators are assured of reasonable returns on their investment and, on the other, the economy benefits from stable prices and supply.

The Commission has suggested that the Agricultural Commodity Corporation of India, the establishment of which has been proposed in the interim report on Agricultural Price Policy, should deal with the marketing aspects of oilseeds. It has also recommended that the proposed Tobacco Board should be entrusted with the responsibility of stabilising the prices of various grades of tobacco. The Commission has emphasised that all the commodity corporations (i.e. Cotton Corporation, Jute Corporation, Tobacco Board and Agricultural Commodity Corporation) should be equipped with adequate financial and physical resources to enable them to gain a commanding

position in the respective commodity markets.

## Aluminium Distribution

The government imposed on March 16, a statutory control on the distribution of all varieties of aluminium metal. There was earlier price control on aluminium and informal distribution control on EC grade aluminium only. A special controller has now been appointed in the Department of Mines and Metals to ensure effective distribution of the metal under the Essential Commodities Act. The controller will look after the distribution of both EC and CG grades of aluminium. He has been asked to ensure that producers supply the metal to allottees according to priorities laid down by the government. Aluminium metal has been in shortage for some time now. The government had issued the Aluminium Control Order in 1970. In spite of this the problem of effective distribution, according to priorities could not be ensured.

The union government has also decided to look into the alleged widespread bypassing of the regulation concerning the manufacture of EC grade aluminium. Although the industry as a whole is required to produce EC grade aluminium at least to the extent of 50 per cent of the total production, some of the manufacturers in their individual capacity are said to be not complying with this regulation. This leads to a shortfall in the supply of EC grade aluminium, which at a time when the total production has gone down sharply owing to severe power cuts, upsets the production schedules of aluminium processing industries. The government expects the aluminium output during the next financial year to increase to 175,000 tonnes from the current year's figure of 127,000 tonnes. The share of EC grade aluminium will be about 87,500 tonnes. Minimum requirements of EC grade are however, for about 120,000 tonnes.

## Chemical Prices

The State Trading Corporation has come out with a sub-

stantial reduction in the prices of six more items of chemicals in order to liquidate its large stocks. The items are beta naphthol, VA monomer, LDPE, polypropylene, titanium dioxide and aniline oil. The cut in the prices ranges between Rs 1,000 and Rs 5,000 per tonne. Beta naphthol is now priced at Rs 37,644 against Rs 43,350, VA monomer at Rs 17,370 against Rs 26,417, titanium dioxide at Rs 19,000 against Rs 21,529 and aniline oil at Rs 20,318 against Rs 21,220 per tonne. The revised prices come into effect from March 15 and they are operative till March 31, 1975. The situation would be reviewed afresh thereafter in the light of consumers' demand and the availability of stocks. STC will offer these chemicals to the holders of release orders on first come first served basis. Those allottees who have already lifted the chemicals in the past against their release orders are not liable for fresh supply.

## UK Business Team

A British business mission sponsored by the Birmingham Chamber of Industry and Commerce (BCIC) arrived in New Delhi recently for a 12-day tour of India. The mission is led by Mr J.R. Stewart-Smith, Divisional Director and Steel Marketing Manager of Balfour Darwins Ltd, who manufacture hand tools, high-speed steels, alloy and carbon tool steels. With its wide diversity of light and heavy industries, the Midlands is regarded as Britain's 'workshop', with Birmingham as the capital.

The members of the mission represent firms supplying a wide range of capital goods. These are: B & S Massey Ltd, who make mechanical forging presses, trimming presses, die and free forging hammers — represented by their Export Manager, Mr C.N. Massey; The Vapormatic Co. Ltd., who make replacement parts and accessories for agricultural tractors and implements — represented by their Sales Manager, Mr D.B.

Mitchell; Bell & Howell Ltd., who make transducers for aerospace, marine and industrial uses, analogue tape recorders and UV recorders — represented by their Export Sales Manager, Mr D. Newton-Smith; Charles Openhaw & Sons (Manchester) Ltd., who make "Openbrig" rubber offset printing blankets, lamp covers, cylinder packings and pressroom chemicals — represented by Mr M.K. Pave, Export Sales Director; Inductotherm Europe Ltd., who make electric melting furnaces — represented by their Director and General Manager, Mr J.S. Perks; and Brookee (Oldbury) Ltd., who produce tube-making and working machines, drawbenches, and cutting, handling, tapering, bore polishing and slitting machines — represented by Mr A.R. Teasdale, Export Sales Executive.

## Indo-French Technical Cooperation

The second meeting of the Indo-French Study Group on Economic and Technical Cooperation was held recently. The French delegation was led by M. Larrera De Morel, Head of the Department of External Economic Relations in the French ministry of Economy and Finance and the Indian delegation was headed by Mr M.G. Kaul, Secretary, Department of Economic Affairs in the ministry of Finance.

The group noted the growing economic links between the two countries, both in the matters of trade as also industrial collaborations. The group considered a number of suggestions received from both sides for strengthening economic and technical cooperation between the two countries and identified several areas in which it was felt that further cooperation between the two countries would be fruitful. These are: (1) Technical and industrial cooperation in exploration and production of oil and gas, particularly in off-shore areas; (2) Fertilizers, petrochemicals and pesticides; (3) Power generation and transmission; (4) Cer-

tain specific areas in the mining and utilisation of coal; (5) Transport industry including production of heavy vehicles and underground railway systems; (6) Telecommunications and electronics including data processing; (7) Technological and applied research in several fields.

The group also discussed at length and agreed that there was a good scope for Indo-French cooperation in the execution of industrial projects as also major public work programmes and other infra structures in third countries. It was decided that both the governments would take steps to facilitate cooperation between industrial enterprises of the two countries in undertaking such joint projects.

## Indo-Sri Lanka Agreement

An agreement on Cooperation in the fields of Science & Technology between India and Sri Lanka was signed recently by Mr V.C. Shukla, minister of state for Planning, India and Mr T.B. Subasinghe, minister of Industries and Scientific Affairs, Sri Lanka. The agreement provides for exchange of scientific and technical delegations, exchange of scientists, research workers, specialists and lecturers, exchange of technical documentation and information and arrangement of scientific and technical seminars on problems of common interest. It also includes joint identification of scientific and technical problems and examination and approval of joint research programmes leading to application in industrial and agricultural production, public health, housing, transportation and communication. Joint introduction of various technological processes in industry, agriculture and other fields is also provided for in the agreement.

The cooperation between the two countries will be realised under this agreement on the basis of the implementation programmes which will specify the range, subject and

forms of cooperation including financial terms and conditions. Some of the areas to be considered for cooperation under this agreement include Coconut and Tea Research, Rubber and Polymers, Natural Products, Essential Oils, Pulping of Indigenous Woods for Paper and other uses. Cooperation in the fields of Bleaching Techniques, Purification and Upgrading of Graphite, Mica, Ilmenite, Kaplin, Rice Bran Oil Technology and Natural Vegetable Fibres will also be considered.

## Trade Delegation to Moscow

A trade delegation led by the Commerce Secretary, Mr Y.T. Shah, left for Moscow on March 14, 1975 for talks with the Soviet authorities regarding the perspectives of the long-term trade plan and a general review of Indo-Soviet trade. The current long-term trade plan for 1971-75 will expire in December 1975 and a new long-term plan for the next quinquennium, 1976-80, has to be negotiated in the course of this year. Preliminary discussions on the subject were initiated some time ago. However, these Indo-Soviet talks mark the beginning of the intensive phase of these negotiations. It is expected that after one or two more rounds of discussions in the course of the next three to four months, the long-term trade plan will be finalised. It may be recalled that Mr M.S. Patolichev, Soviet minister of Foreign Trade had recently invited Prof D.P. Chattopadhyaya, union Commerce minister, to visit Moscow this year for signing the trade and payment agreement. Prof Chattopadhyaya had tentatively accepted the invitation. During his visit to Moscow, Mr Y.T. Shah is having discussions with the Soviet authorities in the ministry of Foreign Trade, GOSPLAN, and other state organisations.

India's trade with the USSR has increased significantly during the last five years. The total trade turn over between the two countries increased from Rs

300 crores in 1971 to Rs 618 crores in 1974. The trade protocol for 1975 envisages a turn over of around Rs 750 crores. It may be recalled that in November 1973, when Mr Brezhnev visited this country, the leaders of the two countries had envisaged a target of doubling the trade turnover between the two countries in real terms by 1980.

## Electrical Equipment Industry

The union government has decided to extend the special facility of diversification to the electrical equipment industries covered under the Scheduled Industry No. "5-Equipment-(1) Equipment for generation, transmission and distribution of electricity including transformers and (2) Electrical Motors". Any industrial undertaking currently holding a licence for the manufacture of one or more items falling under the above scheduled industry, will now be eligible to undertake the manufacture of any other item falling under the same sub-schedule, within the overall licensed capacity for such items. However, this is subject to the following exceptions: (a) power generation equipment; (b) transformers (including CTs and PTs) and switchgears in the higher ranges above 220 KV; and (c) electric motors in the range above 1000 HP. For availing this facility, interested parties may submit five copies of the application in form IL to the Additional Secretary, Department of Heavy Industry, Udyog Bhavan, New Delhi.

It will no longer be necessary to go through the usual procedure for industrial approval. The Additional Secretary in-charge of Electrical Equipment Industry in the Department of Heavy Industry has been authorised to receive applications for such diversification and also to accord necessary approval to such proposals. The ministry of Industry and Civil Supplies has issued instructions that applications for diversification

should be dealt with speedily and the final disposal should be communicated to the applicant within two months.

It may be recalled that in the context of government's policy to promote fuller utilisation of existing capacity, the Ministry of Industry and Civil Supplies had announced, in March, 1974, special procedure for diversification in machinery industries, taking into account their distinctive features and potentials. This facility had been extended later to the machine tool industry as well in October, 1974.

### Export of Tyres and Tubes

The export earnings from India-manufactured tyres and tubes went up from Rs 5.74 crores in 1972-73 to Rs 7.49 crores in 1973-74. Tyres and tubes manufacturing technology in India has come to a stage of satisfying the rapidly changing demands of tyres and tubes required for the most modern type of automobiles. In the total export earnings during 1973-74, tyres earned as much as Rs 6.52 crores while the share of tubes was of the order of Rs 0.96 crores. Tyres for trucks and buses particularly, were in keen demand in overseas markets during the year having earned maximum foreign exchange valued at Rs 3.6 crores.

Yugoslavia constituted the topmost buyer during the year having imports worth Rs 0.97 crore. Iraq, the second significant buyer, bought worth Rs 0.48 crore followed by Czechoslovakia Rs 0.35 crore, the USSR Rs 0.25 crore, Iran Rs 0.22 crore. Kuwait Rs 0.2 crore, German Democratic Republic Rs 0.18 crore and the UK Rs 0.15 crore. Among others, Federal Republic of Germany, New Zealand, Qatar, Ethiopia, Czechoslovakia and Nepal were significant. Apart from this main variety, off the road vehicle tyres earned Rs 0.9 crore, cycle tyres Rs 0.63 crore, tyres for motor cars Rs 0.4 crore, tyre flaps Rs 0.1 crore and tyres for other vehicles Rs 0.8 crore. Bangladesh,

USA, Ghana and Rumania were the major markets for cycle tyres while Iran and Iraq were the principal importers of motor car tyres.

### Relaxation in Excise Duty

The union government has announced certain relaxations of the one per cent levy under the Finance Bill, 1975. The levy has been imposed on "all other goods not elsewhere specified" manufactured in a factory as defined in the Factories Act, 1948. Though the tariff item covers all manufactured goods not specified elsewhere in the Central Excise Tariff, by executive notification, the levy is confined to goods produced in factories which employ more than 49 workers in case of power operated factories and more than 99 workers in case of non-power operated factories. The following goods are exempted from the whole excise duty leviable thereon under this tariff item: 1. All kinds of food products and food preparations, including (i) meat and meat products; (ii) dairy products; (iii) fruit and vegetable products (iv) fish and sea foods; and (v) bakery products. 2. Electric light and power. 3. Goods falling under this items, which are used in the same factory as intermediate goods or component parts for manufacture of other goods.

It has also been decided that factories falling under the exempted sector need not be subjected to the licensing formalities. As this item cover all types of factories, some procedural relaxations had been granted in order to enable the factories to adjust themselves to the levy and also to ensure that production and clearance of goods are not disrupted during the transition period. Goods may be allowed to be cleared on presentation of application for Central Excise Licence and on payment of duty and on fulfilling other relevant conditions without insisting on prior furnishing of ground plan and execution of bond; clearance of goods can be taken after submitting classi-

fication lists without waiting for approval.

### Vulcanising Workshop

The first workshop for vulcanising conveyor belting in India will be set up this year for Neyveli Lignite Corporation Limited. The workshop will be supplied, and its erection and commissioning supervised, by Wagener & Co. of West Germany, represented in India by Larsen & Toubro Limited. The corporation, operates extensive belt conveyors in its mines. Currently replacement cost of worn out belting is estimated to be in the region of Rs 2 crores per annum.

The workshop under supply will drastically reduce this cost, in foreign exchange, by stretching the life of the conveyor belts through reconditioning and vulcanising. The workshop will be able to restore the used conveyor belts to 100 per cent efficiency at least twice over in the case of nylon and textile corded belting and three times over in the case of steel corded belting.

### Sugar Output

Inaugurating the annual general meeting of the National Federation of Co-operative Sugar Factories recently, the minister for Agriculture and Irrigation, Mr Jagjivan Ram, stated that the production of sugar this year was expected to be 4.4 to 4.5 million tonnes. He complemented the sugar industry on having reached "expectations of all-time high production" and appealed to the industry to ensure "that our high expectations are not belied".

The minister was happy to note that the importance of sugar exports to the national economy had been recognised by the industry. The country needed not only the foreign exchange accruing from such exports, but also the excess rupee realisations available through it. As much as 400,000 tonnes of sugar had been exported during the first two months of this year.

Regarding fixation of minimum cane price the minister said that the scheme of partial

control on sugar provided mechanism to ensure a price for cane higher than the prescribed minimum. He said that the recommendations of the Agricultural Prices Commission for fixing the minimum cane price for 1975-76 had been received and the decision would be announced shortly.

### Names in the News

Mr Vasant J. Sheth, Chairman of the Great Eastern Shipping Co. Ltd, has been elected President of the Bombay Chamber of Commerce & Industry for 1975-76. He was elected Vice-President of the Chamber in 1974. Mr Sheth is a Founder Director and at present Chairman of the Great Eastern Shipping Co. Ltd, which is the second largest private sector shipping company.

Mr Raj Mohan Bhandari has recently been appointed Deputy Managing Director Dunlop India Limited. Mr Bhandari is the first Indian to take charge of the Company's production facilities as Deputy Managing Director (Works)

Mr M.L. Capoor, who is responsible for Dunlop India's purchasing activities, has recently been appointed a whole-time director of the company. Mr Capoor is a past President of the Materials Management Association of India (1970-72) and was elected Treasurer of the Asian Regional Purchasing Association at the First Asian Congress on Purchasing, Manila in 1971.

Mr Harish Mahindra has been unanimously elected as the President of the Federation of Indian Chambers of Commerce and Industry for the year 1975-76. His predominant interest is steel and he is the Chairman of Mahindra Ugine Steel Co. Ltd.

Mr B. Himatsingka, Managing Director, India Carbon Limited has been declared re-elected unanimously as President of the National Alliance of Young Entrepreneurs (NAYE) for a two year term ending March 31, 1977. Mr Himatsingka is also President of the Indian Chemical Manufacturers Association.



# COMPANY AFFAIRS

## Dull Trading

SHARES MOVED in a narrow range in dull trading in Stock markets last week. Shares, in general, drifted downward on fear of disinvestments and lack of support even at lower levels. Attempts at rally proved short-lived as operators were inclined to book profits at improved levels. In the absence of any clear indication about the amendment to Dividend Act, better corporate reports failed to impress the market. The stock market's real problem, of course, is altogether different.

It is the higher interest rate structure which has undermined the cult of equity. No one, of course will go in for equities when savings can be invested more profitably without any risk whatsoever elsewhere say, company deposits. There is little chance of any reduction in interest rates in the near future. Hence no easy game for the stock market.

Equities fluctuated both ways with a restricted turnover, in the Bombay Stock Exchange last week. Opening on a subdued note prices of leading equities further eased on bull liquidation in the first part of the week but prices of selected stocks improved modestly on replacement buying and renewed short-covering. The week concluded on a hopeful note. Share values moved both ways in an irregular fashion in Lyons Range giving an impression that the operators were being forced to sort out trading despite their reluctance. No doubt they were hesitant to extend their commitments and as such the turnover was comparatively small. There was little change in the general trading pattern in the Madras Stock Exchange during the week. Enquiries

were few and the turnover was thin.

## Bombay Dyeing

Despite power cut and strike in the early part of 1974 Bombay Dyeing and Manufacturing Company has fared extremely well on all fronts during the year, its sales, profits and exports exceeding the previous year's performance by considerable margins. Its turnover crossed the Rs 50-crore mark and touched the peak figure of Rs 51.32 crores, thereby recording a handsome gain of Rs 6.36 crores, over 1973. Its exports too shot up to Rs 15.25 crores, registering a phenomenal rise of about 69 per cent over the preceding year. Gross profit was also substantially higher at Rs 4.29 crores as compared to Rs 3.65 crores in the earlier year.

The directors have proposed a final dividend of Rs 2 per share, which together with the interim of one rupee per share, makes a total of Rs 3 per share or 12 per cent as against 20 per cent paid for 1973. In the event of the Dividend Act being modified or amended before the annual general meeting scheduled for April 2, 1975 it is the intention of the board to recommend a final dividend at the permissible rate but not exceeding 12 per cent. In the current year with power cut, slack export demand and domestic prices being 20 per cent below the higher levels of 1974, the Chairman Mr. Neville N. Wadia has predicted that the company's profits in 1975 will be substantially below 1974. To arrest the decline in profits, the company is making an all out effort to improve its efficiency, economise wherever feasible and

postpone any further capital expenditure.

## Standard and Chartered Banking

For several years the standard and chartered Banking Group has been actively pursuing a policy of selective expansion in Europe. This has resulted in the establishment of branches in Paris and Milan, representative offices in Madrid and Frankfurt and the acquisition of a bank in the Netherlands. Further branches and offices are to be opened during 1975 and of these, a representative office was opened recently in Copenhagen. Following Denmark's entry into the European Economic Community and the consequent relaxation of rules governing the operations of foreign banks, a small number of foreign banks have applied to establish a branch in Copenhagen. In the case of Standard and Chartered, however, it has been thought preferable to open a representative office in the first instance and a decision concerning the opening of a branch will be taken shortly.

In the meantime, Mr. Tarben Friis, the group's first representative will be actively engaged in marketing the services of the Group in Denmark and will extend his area of representation to cover Norway, Finland and Sweden. Although the Scandinavian countries trade principally between themselves and the rest of Europe an increasing proportion of trade is taking place with African and Far Eastern countries as well as the provision of important aid programmes in these areas. However, since it has been the policy of all the Scandinavian governments to discourage domestic banks

from operating abroad, only a few overseas branches exist and the bulk of foreign trade finance is handled through correspondent banks and associated companies. Thus there will be scope in this field of business for Standard and Chartered Banking Group with its extensive network and experience of local conditions and, indeed, the Group in London has been approached by several Danish companies.

The Representative will be able to offer advice and assistance to overseas companies engaged in or contemplating business in Scandinavia, although the office will not itself undertake banking transactions.

## Warner Hindustan

Warner Hindustan has reported higher sales, profits and exports during the year ended November 30, 1974. Its net sales shot up to Rs 8.34 crores from 6.39 crores from earlier period of 11 months while gross profit jumped to Rs 145.71 lakhs from Rs 122.69 lakhs in the previous year. The directors have recommended an equity dividend of 11 per cent on the enlarged capital resulting from the three for ten bonus issue. In 1972-73 the company paid an equity dividend of 18 per cent. The company has made remarkable progress on the export front, its exports during the year being significantly higher at Rs 46.53 lakhs as compared to a mere Rs 9.31 lakhs in the preceding year. The substantial improvement in exports has been largely due to sizeable despatches of its products to Bhutan, Nepal and Sikkim.

The directors have enhanced all allocations to reserves. The appropriation to depreciation reserve was stepped up from Rs 21.89 lakhs to Rs 23.75 lakhs, to development rebate reserve from Rs 3.13 lakhs to Rs 3.86 lakhs and to taxation from Rs 60.51 lakhs to Rs 74.00 lakhs. The net profit after all these provisions amounted to Rs 44.10 lakhs as against Rs 37.16 lakhs in 1972-73. The proposed equity

dividend will absorb Rs 14.01 lakhs.

### Larsen & Toubro

The Board of Directors of Larsen & Toubro Limited has decided to offer rights shares to shareholders in the ratio of one equity share for every four equity shares held. The rights shares will be issued at a premium of Rs 6 each over the nominal value of Rs 10 per share. An amount of Rs 8 per share (Rs 5 towards the capital and Rs 3 towards the premium) is payable on application in June 1975, and the balance of Rs 8 is payable before December 31, 1975. All 14,90,679 shares proposed to be issued as rights will qualify for full dividend for the year ending March 31, 1976. Further, in order to facilitate payment for the rights, the directors are considering the declaration of an interim dividend for the year ended March 31, 1975 subject to the sanction of the government of India. The books of the company will be closed from April 2 to April 19, 1975.

### Mahindra and Mahindra

Mahindra and Mahindra has suffered a setback in its working during the year ended October 31, 1974. Although its turnover has improved by about 13 per cent from Rs 49.71 crores to Rs 56.18 crores, gross profit has recorded a sharp decline by about 30 per cent to Rs 2.93 crores from Rs 4.19 crores in 1972-73. Out of the gross profit, the directors have appropriated a sum of Rs 113 lakhs to depreciation reserve, Rs 4 lakhs to contingency reserve, and Rs 30 lakhs for taxation as against Rs 122 lakhs, Rs 11 lakhs and Rs 108 lakhs provided respectively in 1972-73. This leaves a net profit of Rs 1.46 crores as compared to Rs 1.78 crores in the previous year. The directors have recommended an equity dividend of nine per cent for 1973-74 as against 14 per cent paid for the previous year.

Several factors combined to make the operations of the automotive division difficult.

Budgetary contraction both at union and state levels, aggravated by substantial increase in excise levies and inflation pushing up production costs at all levels, resulted in a perceptible fall in demand for vehicles. On top of it, the sharp increase in the cost of petrol substantially increased operating costs. All this inevitably took its toll in a general lowering of demand, thereby compelling the division to curtail production during the year. Despite the spiralling cost of bought-out components and raw materials, there was no corresponding increase in the selling prices of vehicles for virtually three quarters of the year, as it was only in August 1974, that government withdrew its earlier restrictions on adjustment of selling prices. All these factors were responsible for the drop in the gross profit of the company.

Due to fall in demand for petrol driven vehicles, production had to be curtailed from 14,216 vehicles in the previous year to 12,259 vehicles during the year under review. The operation of the steel division continued to be successful in all the three sectors of its activities, i.e. sale of alloy and special steel, import of critical categories of steel materials which are domestically in short

supply and handling of steel materials both of imported and indigenous origin from the steelyard at Calcutta.

The instrumentation division ended the year with a 44 per cent growth in income. Although construction of the new factory of the electronics division at Nasik has been completed, production was delayed due to late receipt of import licences. The machine tool division, too, had a satisfactory year. The company's export performance showed further growth from Rs 233 lakhs to Rs 360 lakhs.

### News and Notes

Owing to power difficulties, Rathl Gases has decided to shift its plant from Ghaziabad (U.P.) to Alwar, an industrially declared backward area in Rajasthan. After working out details of the sources of funds, the company has arranged for term loans of Rs 28.50 lakhs and Rs 12 lakhs respectively from the Rajasthan Finance Corporation and State Bank of Bikaner and Jaipur. The Rajasthan State Industrial and Mineral Development Corporation has also agreed to subscribe to 11 per cent cumulative redeemable preference shares worth Rs 2.50 lakhs and the promoters have been asked to pay a shortfall of Rs 1.50

lakhs towards the shortfall of an unsecured loans at a very nominal interest rate.

Voltas has received a contract valued at approximately US\$1 million from the Group Water Development Administration, Ministry of Agriculture & Agrarian Reforms, Baghdad, Iraq, for the supply of 10 Nos. VOLLA Waterwell Drilling Rigs along with other operating accessories and equipment. The contract was awarded to India on a global tender and again intense competition from the USA, Europe and the USSR.

Scindia Steam Navigation Company Ltd. will be short catering to the trade from East Coast of India to East African Ports. The trade will be regularly covered for our export to Kenya, Tanzania and Mozambique. The service has been introduced in collaboration with Bank Line who have been solely covering the trade heretofore. Henceforth the will be regular sailing in alternate months from Scindia and Bank Line. Scindia's, will be the first to sail to this area by end March 1975 from Calcutta.

The Asiatic Society, the premier institute for research and knowledge for nearly two centuries, has awarded the Durga Prasad Khaitan Memorial

## EASTERN ECONOMIST

### Budget Number

EASTERN ECONOMIST dated March 7 is a special number devoted to a discussion of the central budget. As in the previous years, this Budget Number presents an analysis of the budget proposals and a study of the budget documents in the larger economic context as well as in specific details. This issue includes relevant budget literature and statistics. Priced at Rs 10 per copy (postage extra) this special number is on sale with leading booksellers and news agents. Copies can also be had from the office of the Eastern Economist Limited, Uco Bank Building, Parliament Street, New Delhi-110001. New subscribers, who remit the annual subscription of Rs 100 before April 30, 1975 will also be entitled to receive a copy of this Budget Number free of charge.

al Gold Medal to Mr. V. R. Desai, Chairman, United Commercial Bank, for his significant contribution in the development of industries and society through the agency of banking. Mr. Desai received the award at the Society's annual meeting held recently at Asiatic Society Hall, Calcutta. At the function Dr. N. Sethna, Chairman, Atomic Energy Commission, as among others, to receive the Asiatic Society awards.

## Jew Issues

In order to meet the increased demand, **Gangappaables Ltd** has embarked upon

Rs 76 lakh expansion scheme to enhance its licensed capacity from 900 tonnes to 300 tonnes per annum of upper enamelled copper wires and paper covered wires and ribs. To meet a part of the cost of the expansion the company is offering 171,750 equity shares of Rs 10 each and 7,500 (1 per cent) redeemable cumulative preference shares of Rs 10 each for cash at par to the public for subscription. The subscription list opened on March 19 and will close on March 29 or earlier but not before March 22.

The capital outlay on the expansion scheme, including working capital requirements is estimated Rs 76.11 lakhs. It will be financed by the present public issue of Rs 24.68 lakhs, term loans of Rs 34 lakhs from financial institutions and internal cash accruals and public deposits of Rs 17.43 lakhs. The company has consistently maintained its record in respect of sales and profits. It declared a dividend of 12 per cent for the year ended June 30, 1974 and is confident of declaring a reasonable dividend on the enlarged capital the coming year. It hopes to issue bonus shares in about two to three years.

**Upper India Trading Co. (P) Ltd.**, a pioneer in automobile spares and accessories, was founded in 1920. By the late fifties Upper India had gained a very comfortable position in the automotive trade. By

1956 the management had the foresight and vision of entering into the manufacturing field. In 1958 a new company styled Upper India Bearings Pvt. Ltd. was started and a plant was erected at the Guindy Industrial Estate, Madras. With a nucleus thus created, things started moving fast. Collaboration agreements were signed with a reputed West German Organisation, and the plant went on stream in early 1960.

Initially Upper India were manufacturing thick-walled bearings using the centrifugal casting process. With demand outstripping its production, a second plant was set up at Thoraipakkam, near Madras. After the termination of the technical collaboration in 1968, Upper India launched a thin-walled bearings and split bushings with 100 per cent indigenous know-how. It is now enlarging its capital in order to expand its manufacturing operations. It has already received an industrial licence for manufacturing 30 lakhs bearings and bushings.

The new plant will be located at SIPCOT Industrial complex, Ranipet, Tamil Nadu and the company will be entering the capital market shortly for raising resources for implementation of the project. According to estimates there will be a gap of 150 lakh bearings and bushings between demand and supply by 1978-79. Upper India who will by then will be operating at the full rated capacity of 30 lakhs bearings and bushings expects no difficulties in marketing its products.

**Union Home Products**, Mangalore, Karnataka State, founded in 1972 will soon be entering the capital market to raise Rs 25 lakhs out of Rs 90 lakhs required by it for establishing a modern unit for the manufacture of detergent products. Headed by Mr Vasant M. Pai, considered as one of the top experts in the country in the soap and detergent products manufacturing techniques, this unit is being sponsored by well known business house of "Kasturi" in Mangalore who have been in the soap

manufacturing line for more than 25 years. The company has been licensed further to manufacture 10,000 tonnes of detergent products. It is interesting to note, however, that the letter of intent was given to UHP in April 1974 and the plant is expected to go into production in May 1975, that is, within one year.

UHP has been marketing Boon, the detergent washing cake, in Tamil Nadu and Karnataka since 1972. With the increased capacity, UHP will serve the needs of the consumer market more fully in the South. UHP's manufacturing programme already includes manufacture of ZEN, the detergent washing powder, and ZIG, the cleaning powder, which are already in the market. More consumer products such as body talcum powder, a range of shaving creams and tooth paste are also in the manufacturing programme.

**Mindia Chemicals** promoted by Monsanto Co of the USA, will be entering the capital market by the end of May to raise 1.86 crores in equity shares of Rs 10 each to meet a part of cost of its Rs 9.40-crore project for the manufacture of rubber chemicals. The company's plant to be located in the trans-Thana Creek industrial area near Bombay is likely to go on stream early in 1976. The company has been granted an industrial licence for manufacturing annually 3,300 tonnes of rubber chemicals and 3,400 tonnes of intermediates from basic raw materials. The two basic types of rubber chemicals to be manufactured by the company are antioxidants and accelerators which are used principally in the manufacture of tyres as also by other rubber and rubber products manufacturers. The technical know-how and collaboration for the plant will be provided by Monsanto Co. of the USA.

## Dividends

|                            |                 | (Per cent)                   |               |
|----------------------------|-----------------|------------------------------|---------------|
| Name of the company        | Year ended      | Equity dividend declared for |               |
|                            |                 | Current year                 | Previous year |
| <b>Higher Dividend</b>     |                 |                              |               |
| Thanjavur Textile          | March 31, 1974  | 15.0*                        | 12.0          |
| Porritts and Spencer       | Sept 30, 1974   | 11.0**                       | Nil           |
| <b>Same Dividend</b>       |                 |                              |               |
| Rohit Pulp and Paper Mills | March 31, 1974  | 12.0                         | 12.0          |
| S.B. Joshi                 | June 30, 1974   | Nil                          | Nil           |
| Shah Construction          | June 30, 1974   | Nil                          | Nil           |
| <b>Reduced Dividend</b>    |                 |                              |               |
| Jeypore Sugar              | June 30, 1974   | 12.0                         | 20.0          |
| Rustam Jehangir Vakil      | March 31, 1974  | 12.0                         | 24.0          |
| T. Maneklal Mfg.           | May 31, 1974    | 12.0                         | 20.0          |
| Ugar Sugar Works           | June 30, 1974   | Nil                          | 15.0          |
| Ralliwolf                  | August 31, 1974 | 5.0                          | 20.0          |
| South India Steel & Sugars | June 30, 1974   | Nil                          | 12.0          |

\*On increased capital.

\*\*Maiden dividend.

# RECORDS AND STATISTICS

## ESCAP's New Delhi declaration

AT ITS 31st session, which was held in New Delhi from February 26 to March 7, the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) adopted a declaration calling upon the member-countries to "display the necessary political will" to accord the highest priority to production of food and economic and social development of the most disadvantaged. Known as the New Delhi declaration, it was adopted at a plenary session attended by 39 countries.

The declaration stressed the need for the maximum utilisation of regional skills, capabilities and expertise so that regional cooperation could be strengthened. It also recommended cooperative effort among or between countries of the region to solve the fundamental problems relating to the commodities and raw materials as related to their trade, transit facilities and development as appropriate." The following is the full text of the declaration.

**Recalling** General Assembly resolutions 3201 (S-VI) and 3202 (S-VI) on the Declaration and Programme of Action for the Establishment of a New International Economic Order as adopted;

**Further recalling** Commission resolution 140 (XXX) containing the Colombo Decla-

ration to intensify action in the identified priority areas, to work towards an integrated approach to economic and social development, and to assist sub-regional and other forms of joint efforts within the overall framework of regional cooperation;

**Convinced** that the progress made in implementing the decisions of the Commission at its last session and in securing a cohesive and multi-disciplinary approach to the developmental problems of the region, particularly through an action-oriented programme of work, will further the establishment of a new international economic order;

**Aware** of the importance of the thirty-first session of the Commission which is being held at the mid-point of the Second United Nations Development Decade and that this session provides the first opportunity to formulate the regional contribution to the establishment of a new international economic order;

**Having reviewed** the progress made during the Second United Nations Development Decade;

**Concerned** at the substantial shortfall in the attainment of the objectives of the strategy, the unsatisfactory pace of development, and in particular, lagging agricultural production and continuing food shortages, low levels of industrial growth, a deterioration in the terms of trade and balance of payments problems, falling prices of some commodities and rising import costs, all of which affect most developing countries of the region;

**Aware** that these problems are often due to or aggravated

by historical circumstances including alien and colonial domination and neo-colonialism in all its forms, and by imbalances in the distribution of food and raw materials, periodic natural disasters, global inflation along with recession in some major industrial countries, recurrent instability of the international monetary systems, and high prices and global shortages of essential goods and inputs, and rapid rates of population growth;

**Mindful** of the need to give special attention to the poorest people within developing countries and the least developed including the land-locked and island countries and the most seriously affected countries;

**Reaffirming** the ardent wish of the peoples of the region to continue to develop their national economies in accordance with the principles of independence and self-reliance, and to promote international cooperation on the basis of equality and mutual benefit;

**Recognizing** that a high rate of economic growth is in itself not sufficient and that it is the distribution of wealth between regions and peoples and its impact on the environment and quality of life that determine the welfare of the people;

**Motivated** by the common determination to end poverty in the region and to provide to its people a richer and fuller life;

**Further recognizing** the imperative need for intensifying regional cooperation in all sectors of economic and social activities with the objective of promoting increasing self reliance individually and jointly among the developing countries of the region;

**Having considered** the report of the Regional Post-World Population Conference Consultation, which placed emphasis on population as an important factor in the integrated development planning;

**Also having considered** General Assembly resolution 3344 (XXIX) stressing the importance of population policies and programmes;

**Conscious** of the significant

role of technology in the development of the national economies of the region and its immediate relevance to all sectors of economic activity;

**Believing** that the resources of the earth need to be conserved and utilized in the most efficient manner;

**Appeals** to the international community and member-states of the region to rededicate themselves to and display the necessary political will for the attainment of the objectives of the Development Decade and growth with social justice that the highest priority should be given to production of food and economic and social development of the most disadvantaged;

**Calls upon** member-countries to intensify their efforts for stepping up food output particularly through co-operative measures, with a view to achieving self-sufficiency in food through production and effective utilization of agricultural inputs, improvements of the required infrastructure and full utilization of potential of rain-fed areas for food production with emphasis on improvement of well-being of small farmers and agricultural labourers, through *inter-alia* appropriate land reforms, and also calls upon the international community to provide all possible assistance to the developing countries to enable them to achieve this objective

**Recommends** to the developing member-countries to accelerate the implementation of programmes for providing education, health, housing and other social services to the common man and bring about rural development through active participation of the people in the planning and implementation process;

**Invites** member countries to continue their efforts to effectively solving the continuing and critical balance of payments difficulties with the fullest cooperation and assistance of developed countries and others who have the resources at the same time appreciating the steps taken by the Inter-

national Community to find solutions to those difficulties;

**Recommends** that the developing countries, whenever and wherever appropriate increasingly utilize the technologies developed by them suited to their needs and their domestic natural resources through genuine technological cooperation;

**Further recommends** co-operative effort among or between countries of the region to

solve the fundamental problems relating to the commodities and raw materials as related to their trade, transit facilities and development as appropriate;

**Invites** member-countries to explore possibilities for intensifying regional cooperation for the development of shipping and ports;

**Urges** the maximum utili-

zation of regional skills, capabilities and expertise in the activities of the Commission particularly in the implementation of the integrated programme of work, especially in the priority areas;

**Declares** that the countries of the region should approach their various problems in spirit of expanding sub-regional and regional understanding and

growing international cooperation and that the deliberations of the session of the Commission should constitute a contribution to the early establishment of a new international economic order and to a new development strategy by focusing special attention on the common people, improvement in their quality of life and condition of their living through growth with social justice.

## Drugs and pharmaceutical industry

THE UNION ministry of Petroleum and Chemicals constituted early last year a committee under the Chairmanship of Mr Jaisukhlal Hathi to suggest ways and means of ensuring adequate availability of essential drugs and common household medicines at reasonable prices, particularly in the rural areas, and also to recommend guidelines for a rapid growth of the drugs and pharmaceuticals industry during the fifth five-year Plan. Reproduced below is the report of this Committee concerning the former issue. The report was submitted to the government recently.

The Committee on Drugs and Pharmaceuticals Industry was constituted by the ministry of Petroleum and Chemicals by the resolution dated February 8, 1974 (annexure C) to examine the various aspects of the drugs industry. One of the terms of reference was "to recommend measures for providing essential drugs and common household remedies to the general public especially in rural areas."

The committee during the course of their discussions, particularly on the availability of essential medicines in larger quantities, felt that although the question of substitution of brand names of the medicines marketed

by the industry by generic names was not a specific term of reference for this Committee, the subject follows clearly from the other terms of references, such as reduction/rationalisation of prices of formulations for the consumers, making the essential drugs available to the general public, attainment of leadership role by the public sector, promoting the growth of the Indian sector etc.

### Important Facets

Besides, the question was also directly linked with many important facets of the industry such as drug patents, irrational practice of medicines, excessive use of ingredients in multi-drug formulations, proliferation of such preparations and beneficial influence on the medical profession etc. of medicines marketed under brand names. Keeping the above aspects in view, the Committee decided that this question should also be looked into by the Committee. The Committee also felt that the view of eminent medical personnel from the different parts of the country should be obtained in this regard. Accordingly, a panel was set up with the following members:

Dt Ranen Sen, Member of Parliament.; Mr P. S. Ramachandran, Drugs Controller (India) DGHS, New Delhi. Dr B. Shah, Deputy Director General (DGTD), New Delhi.; Dr A. B. Chowdhury, M.B., Ph. D., F.A.M.S., F.N.A., Director, Calcutta School of Tropical Medicine, Chittranjan Avenue, Calcutta—17.; Dr B. Ray Chaudhury, M.D. (Cal) FRCP, Ph. D. (Edin),

Associate Professor of Medicine, Institute of Post Graduate Medical Education and Research, 22-Lower Circular Road, Calcutta—17.; Dr K.L. Wig, M.B.B.S. (Pun.) FRCP (London) MRCS (England) D. T. M. & H. (London) FAMS—79, Sundar Nagar, New Delhi.; Dr S. Padmavati, Director, Principal Maulana-Azad Medical College, New Delhi.; Dr K. G. Nair, MD (Bombay) Ph. D. (Chicago) FACC (USA) FICA (USA). Director-Professor of Medicine, Head of the Deptt. Cardiology and Radio-Isotope Unit, K.E.M. Hospital and Seth G.S. Medical College, Bombay.

Dr B. J. Vakil, Hony, Professor Gastroenterology, Grant Medical College, Hospital, Bombay.; Dr K.V. Thiruvengadam, B.Sc., MD, FAMS, Professor of Medicine and Vice Principal, Stanley Medical College Physician, Government Stanley Hospital, Madras.; Dr B.B. Gaitonde, M.D. M.S.C. (Med), F.A.Sc. Director, Haffkine Institute, Bombay.....Convenor.; Dr P.R. Gupta, Adviser (Drugs) in the ministry of Petroleum & Chemicals was also associated with this Panel.

The terms of reference for this Panel were as follows:

To recommend measures for providing essential drugs and common household remedies to the general public especially in the rural areas, and Whether it would be in the national interest to substitute brand name by generic names and if so, the manner and extent to which be done.

Dr K.L. Wig, regretted his

inability to work on this Panel, because of his preoccupation with other assignments. Dr B. Shah also informed his inability to join this Panel as he was proceeding on leave.

The Panel met in Bombay on June 8 and 9, 1974, at the Haffkine Institute, and submitted its report on June 29, 1974, to the chairman of the Committee. A copy of the Panel's report is attached (annexure D).

The Committee on Drugs and Pharmaceuticals Industry at its meetings on July, 25, 1974, and January 21 and 22, 1975, considered the Report of the Medical Panel and adopted the same with some modifications.

### Supply of Essential Drugs

Keeping in view the essentiality of the medicines their need and the availability of the concerned bulk drugs/active ingredients, the Committee, after due consideration, drew up a revised list (Annexure A) of medicines which in its opinion are extensively used in medical practice, both in urban and rural areas. In order to make these essential drugs available at a reasonably low price throughout the country, the Committee recommends the following measures:

- (i) Production of the drugs/medicines as identified in Annexure A, should be given top priority for the manufacture of the relevant bulk drugs/active ingredients.
- (ii) The ministry of Petroleum and Chemicals should take all such measures, which will

increase the production of these drugs expeditiously. Special assistance, priority for power supply, other incentive schemes etc. may be given to entrepreneurs, preferably Indian, who come forward to undertake production of these essential drugs. In short, if there are any impediments, these should be immediately looked into and removed.

(iii) In case of some drugs, the technical know-how is already available, but there is a production shortfall. More entrepreneurs should be encouraged to take to production of such drugs. In case of those drugs for which technical know-how is not available in the country, special incentives may be given to National Laboratories to develop the know-how on a time-bound basis. If necessary, the foreign technical know-how may also be obtained immediately.

(iv) To make these drugs available in rural areas, the distribution system must be rationalised and decentralised in regard to household remedies and commonly used medicines which do not require the prescription of doctors. For this, assistance should be sought from the postal department, Indian Oil Company depots, kerosene depots. Cooperative societies should be encouraged for the distribution of drugs in rural areas. Packaging details should be looked into. Tablets should be supplied in strip packings. Liquid preparations should be supplied in bottles fitted with pilfer proof

closures. Export of the bulk drugs required for the production of medicines mentioned in (Annexure A), as well as their formulations should be so regulated that there is no shortage of these essential drugs in the country at any time.

(v) At present, there are a

number of difficulties, especially in small towns and rural areas, to establish pharmacies for dispensing of drugs. One of the major difficulties is the non-availability of trained pharmacists. According to the Drugs Act, those who possess a Diploma in

Pharmacy can only be licensed as dispensers. The diploma course is quite lengthy and the remuneration paid to the dispenser is not attractive. It was considered that a short-term need-oriented course, after matriculation, may be instituted for young people, who

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could take up the job of distribution of these medicines in the rural areas and other remote parts of the country. The Committee recommends that steps should be taken to revise the present syllabus of training of the pharmacists. The Pharmacy Council should be approached to tailor the course to suit the needs of the country. An intensive, need-oriented course of a short duration should be instituted for training of dispensers, who then could be licensed to establish pharmacies and drug stores in smaller towns and rural areas.

- (vi) Primary Health Centres should be given adequate financial assistance for purchase of drugs, so that rural population also gets the same quality drugs in adequate amounts as in urban areas.

#### Indianisation in Drugs

The question of substitution of brand names by generic names was extensively discussed. All facets of the problem, such as Indianisation of brand names, impact on drug prices, bio-availability, quality of drugs, enforcement of drug control, multiple ingredient preparations, export of drugs, labelling difficulties, impact on small-scale industry, patent rights, distribution system, acceptance by the medical profession, role of distributors and pharmacists, effect on the growth of pharmaceutical industry, difficulties and inconvenience in the use of tongue-twisting generic names etc., were discussed in detail.

The Committee also met the representatives of various organisations such as Indian Medical Association (IMA), Organisation of Pharmaceutical Producers of India (OPPI), Indian Drug Manufacturers Association (IDMA), All India Manufacturer's Organisation (AIMO), members of the

Development Council for Drugs and Pharmaceuticals, etc., to elicit opinion on this very important question of far reaching significance. The committee also considered the memoranda submitted by various state governments, public sector and others including small-scale sector undertakings and different associations mentioned above.

The Committee had before it the report of the medical panel recommending the abolition of brand names in a phased manner starting with specific drugs identified by the panel.

#### Generic names Worldwide

Throughout the world, and in our country as well, a medical student receives his training on drugs under generic names. In fact, in all text books of therapeutics as well as pharmacology, drugs are mentioned by generic names always. In the interest of rational practice of medicine, therefore, it is in the fitness of things that medical practitioners should continue to use prescribe a drug under generic name, so that they are fully conscious of the type of therapy prescribed for their patients. More often, the practising physician is likely to be unaware of the active ingredients of a drug prescribed under brand name. Two branded products containing the same or similar active ingredients may be prescribed to patients resulting in overdose, and consequent toxicity/damage to the patient's health.

Further, many brand names are phonetically similar creating confusion, which can be seen from the following examples:

Cornil and Corlin; Codogin and Codopin; Detazone and Deltazone; Diaginol and Dianabol; Dicazine and Dicarzen; Etadryl and Metagyl; Methicol, Methicol, Methiolin, Methionine etc.

To bring about uniformity in names, the WHO issues periodically a list of non-proprietary names with the recommendation that these be

adopted by national organizations. The intention here is to prevent confusion and chaos in the field of prescribing medicines. It is also necessary to point out that all national formularies including the Indian National Formulary, prepared by the most eminent leaders of medical profession in this country, list all drugs and formulations under generic names or pharmacopoeial names. Further, a large number of very important and potent drugs such as insulin, sera, vaccines, antibiotics, digitalis glycosides are mostly marketed under generic names without any difficulty or disaster.

It has often been alleged that the branded products containing the same ingredients differ to a very great extent in their prices and the products bearing generic names are decidedly cheaper. Several examples have been cited such as aspirin and aspro, paracetamol and metacin etc. It is reasonable to accept that promotional efforts and expenses incurred by the manufacturers to establish their brand names are commensurate with higher prices. In fact, in the larger context, this is not in the best interest either of the manufacturer or the patient. If the same money is spent on better standardization, quality control and research and development, the national gains will be substantial.

#### Two Categories

The drugs which are sold under brand names fall under two categories: (i) those which contain a single ingredient, and (ii) those which contain multiple ingredients.

A large number of single ingredient drugs are pharmacopoeial but are still being marketed under brand names. Since there is no control over the number of brand names that can be given to a single drug formulation, we have a state of confusion with respect to brand names. Thus, a single drug, such as aspirin, paracetamol or nikethamide, is being marketed separately in this country under several

brand names. This is not in the best interest of either the medical profession or of the patient, who is often led to believe that one branded drug is different from the other and possesses superior values. In effect, this is not the case and the patient is unwillingly made to pay higher prices for his treatment.

#### Dominance of Drug Market

In the case of multi-ingredient preparations, the situation is still worse. Brand names have been responsible for putting up a large number of unnecessary and often irrational formulations in the market. In fact, the organised sector has maintained dominance over the drug market principally through their branded products containing multiple ingredients. Many examples can be given to illustrate this point. This has resulted in excessive use of drugs particularly under the name 'tonics' containing vitamins in excessive quantities. Multiple drug combinations in amounts far in excess of what is required result in colossal national wastage of drugs. This could be substantially reduced if the brand names are eliminated. In this respect, it is to be emphasised that the entire British Health Service runs on the British National Formulary preparations, which are by and large, single ingredient drugs, rather than multiple ingredient preparations.

The Food and Drug Administration of the United States (FDA) appointed a committee of experts drawn from National Research Council (NRC) and National Academy of Sciences (NAS) to evaluate the efficacy of over 3,000 preparations marketed in the United States. It was proved that a majority of these do not possess therapeutic efficacy and were directed to be either withdrawn or to provide further evidence of their effectiveness. There is thus a case for controlling multiple ingredient branded products, marketed in this country, particularly by the organised sector, and promoted rigorously. This, in



itself, will serve to loosen the hold of the organised sector on the pharmaceutical industry to a great extent.

The medical profession has acquired the habit of prescribing branded products. This has unfortunately come out of tradition of several years and not by virtue of training in medical colleges. At no stage brand names are introduced in the medical curriculum. The brand names have a corrupting influence on the profession. A doctor more often patronises branded product and, unwittingly therefore, makes his patient pay more than necessary. This is a matter which the medical profession should think over very seriously.

### Two-fold Effect

A number of new drugs are being introduced in this country under brand names. This has a two-fold effect. A company with aggressive sales promotion establishes its new product under a brand name and reaps the benefits during the period the patent is valid.

After the patent period is over, having established the brand name, it continues to reap this harvest much to the disadvantage of other entrepreneurs. Thus, in spite of the modification of the Patents Act, the disadvantage to the Indian entrepreneur continues in a large measure. Many examples of this can be given. Chloram-phenicol is marketed under the brand name of chloromycetin and nikethamide is marketed under the brand name of coramine. In both these cases, the process patents have expired. However, the concerned pharmaceutical firms manufacturing these drugs continue to derive benefits by virtue of their established brand names.

It is often argued that the quality of a product is assured because of its brand name and substitution of brand name by generic name will result in lowering of standards. Maintenance of quality is the responsibility of the manu-

facturer and it does not go with the brand name.

### Brand names misbranded

Scrutiny of the total number of sub-standard, misbranded and spurious products reported by various drug control organisations and the drug testing laboratory of the government of India at Calcutta will reveal that there are more instances of branded products being misbranded or, therefore, spurious. There have been no instances where a product marketed under generic name has ever been reported to be spurious. Thus, branding of products promotes a tendency to prepare misbranded or spurious products.

Quality must be maintained and every effort must be made to see that all drugs introduced in the market conform to pharmacopoeial or prescribed standards. Very often, it is stated that the branded products of certain firms have standards higher than those prescribed by the pharmacopoeia. Pharmacopoeial standards are adequate enough to protect the interests of the patient. If higher standards are going to result in higher pricing, which, is said to be the case with respect to some branded products marketed by a few firms in the organised sector, there is no advantage to be gained. However, as long as the quality control organisation is properly strengthened, there is no reason to fear that a sub-standard product will be marketed. It is, therefore, absolutely essential to achieve high standards of quality control throughout the length and breadth of the country, irrespective of whether the drugs are going to be marketed under generic or brand names.

It is often argued that bioavailability is an important factor in the efficacy of a drug. The WHO technical series report on bioavailability has highlighted different facets of this problem, particularly the fact that as yet there are no established and accepted methods for evaluation of bioavailability of different

brands of drugs. A drug manufactured by a firm, may differ from batch to batch in its bioavailability. Bioavailability is particularly important in the case of oral preparations and that too with respect to only a very few drugs. It cannot be denied, that in case of drugs like digoxin, phenytoin etc. bioavailability is important, but this has nothing to do with brand or generic names. The drug control authorities will have to exercise effective control over the standards of such drugs which will need bioavailability studies as per recommendations of the WHO whether these drugs are introduced under generic or brand names.

In view of all the above considerations, it is clear that there is a strong case for substitutions of brand names by generic names. In the considered opinion of the committee it may not, however, be advisable to accomplish this change immediately. The medical profession has been traditionally used to prescribing drugs under brand names and a sudden shift may result in considerable confusion and difficulties for prescribing doctors. A sudden change may also affect the present distributions system. The manufacturers will also be faced with some difficulties with respect of labelling etc., if a sudden change is brought about. Steps will have to be taken to strengthen Drug Control organisations in various states in order to enable them to exercise very rigorous control over the quality of drugs.

### Change in Phased Manner

The Committee, therefore, is of the view that this change over from brand names to generic names should be brought about in a phased manner as recommended by the medical panel. In view of all the above considerations and taking into account the intricate facets of the problem, the following recommendations are being made:

(a) Brand names should

be abolished in a phased manner.

- (b) A beginning should be made for a change over to generic name starting with the drug mentioned in the Annexure B to this report. Mostly these drugs are already being marketed under generic names and their generic name are quite elegant.
- (c) Drugs which are exported may be allowed to bear brand names.
- (d) All supplies of single ingredient drugs and drugs included in Indian Pharmacopoeia for central and state government institutions and local bodies should be tendered and supplies made under generic names. At present, drugs though tendered under generic names, are supplied under brand names, and this should be discouraged.
- (e) All drugs other than those listed in the Annexure B should bear labels displaying prominently the generic names. Brand name may be shown on labels in a less conspicuous manner.
- (f) The Drug Controller should, while granting permissions, be requested not to give recognition to brand names of new drugs. New drugs should not be allowed to be marketed under brand names when first introduced into this country.
- (g) Multiple drugs combinations often containing drugs, particularly vitamins, in amounts far in excess of what is required are presently marketed in India. The majority of such combinations are irrational. There is a colossal national wastage of drugs because of such combinations. The Drug

Control Administration should immediately go into the various drug combinations and take prompt measures to eliminate irrational drug combinations. No firm should be allowed to incorporate excessive quantities of any drug over and above what is required to go into the formulations for therapeutic and prophylactic purposes. Multiple-ingredient preparations. New types or multi ingredient preparations should not be allowed to be marketed hereafter unless they are mentioned in the National Formulary or pharmacopoeia and approved by the Drug Controller of India. If any amendment of the Drugs and Cosmetics Act and Rules is considered necessary for this purpose, this should be carried out.

- (h) Non-proprietary names as recommended by WHO from time to time should be adopted.
- (i) Bioavailability studies are important in cases of a few drugs, although this factor has recently been overplayed not always on rational basis. Facilities should be created in different parts of the country, so that the industry, both large and small-scale, can take advantage of such facilities to plan and conduct bioavailability and pharmacokinetic studies.
- (j) In order to keep the medical profession, particularly the general practitioners, well-informed about new drugs and also to popularise the generic names, it is essential to take steps immediately.
- (i) To revise the Indian National Formulary

and make it up-to-date.

- (ii) To publish journals on the lines of the Prescriber's Journals, U.K. Medical Letter, USA, or Formulary Notes of Sri Lanka. Such publications will have to be under the control of an editorial board comprising leaders of the medical profession in the country constituted by the ministry of Health, government of India.

The Committee is of the view that from legal point of view there should be no difficulty in abolishing the brand names. Abolishing of brand names will entail first the amendment of the Trade and Merchandise Marks Act, 1958, and subsequently the Drugs and Cosmetics Rules.

#### Periodic Review

A periodic review of the impact of this step on the drug industry price and availability of medicines is necessary etc. so as to take suitable corrective measures, if required.

Apart from emphasising the needs for ensuring more rigid and uniform quality control throughout the country, the Committee also recommends to the govt. for early implementation of the recommendations made with regard to measures for providing essential drugs and common household remedies especially in the rural areas.

While making the above recommendations, the Committee would emphasise that the recommendation regarding the change over from brand names to generic names has to be implemented cautiously and on a phased manner ensuring simultaneously the necessity of enforcing quality control on drugs and in particular the concerned recommendations made in the Interim report of the committee on 'Quality Control of Drugs'

The committee in concluding this report would like to place on record its deep and warm appreciation of the quick and excellent work

done by the eminent doctors of the panel and in particular by Dr. B. B. Gaitonde, Director, Haffkine Institute,

Bombay, who took special interest in this complex problem and finalised the Report in a very short time.

#### Annexure A

#### Tablets and Capsules (Granules included)

| Name of the Product                                                            | Bulk Drug involved                           |
|--------------------------------------------------------------------------------|----------------------------------------------|
| Capsule Chloramphenicol—250 mg.                                                | Chloramphenicol                              |
| Capsule Tetracycline Hydrochloride—250 mg.                                     | Tetracycline, Hyd-rochloride                 |
| Tablet Idochlorhydroxy Quinolone—250 mg.                                       | Idochlorhydroxy Quinolone.                   |
| Tab. Nitrofurantion—50 mg.                                                     | Nitrofurantion                               |
| Tablet Chlorpheniramine—4 mg.                                                  | Chlorpheniramine                             |
| Tablet Ferrous Sulphate—200 mg.                                                | Ferrous Sulphate                             |
| Tablet Folic Acid—5 mg.                                                        | Folic Acid                                   |
| Tablet Digoxin—0.25 mg.                                                        | Digoxin                                      |
| Tablet Aspirin—300 mg.                                                         | Acetyl Salicylic Acid                        |
| Tablet Phenobarbitone—30 mg, 60 mg.                                            | Phenobarbitone                               |
| Tablet Chlorpromazine—10 mg.                                                   | Chlorpromazine                               |
| Tablet Prednisolone—5 mg.                                                      | Prednisolone                                 |
| <b>Hexa Vitamin Capsules and Tablets</b><br>(Each tablet or capsule contains): |                                              |
| Vit. A—5000 I.U.                                                               | Vitamin A. Calciferol—                       |
| Vit. D—400 I.U.                                                                | —(vitamin D2/Vit. D3                         |
| Vit. B—2 mg                                                                    | Thiamine Hydrochloride                       |
| Vit. B3—3 mg.                                                                  | (Vit. B1), Riboflavine                       |
| Nicotinamide—20 mg.                                                            | (Vit. B2), Nicotinamide                      |
| Vit. C—75 mg.                                                                  | Ascorbic Acid (Vit. C)                       |
| Tablet Vitamin B-complex, Prophylactic N.F.I.                                  |                                              |
| Vit. B. 1—2 mg                                                                 | Vit. B. 1, Vit. B. 2,                        |
| Vit. B2—2 mg.                                                                  | Vit. B. 6—(Pyridoxine                        |
|                                                                                | Hydrochloride),                              |
| Vit. B. 6—0.5 mg. Nicotinamide—                                                | Nicotinamide, Calcium-                       |
| 25 mg. Calcium Pantothenate—                                                   | Pantothenate, Yeast                          |
| 1 mg. Yeast—100 mg.                                                            |                                              |
| Tab Vitamin B-complex with Folic Acid and Vitamin—C, therapeutic N.F.I.        |                                              |
| <b>For Therapeutic Use</b>                                                     |                                              |
| Vitamin B-1=10 mg.                                                             | Vit. B-1, Vit. B2, Vit B 6:                  |
| Vitamin B-2=10 mg.                                                             | Cal. Pantothenate, Niacinamide, Folic Acid,  |
| Vitamin B-6=2.5 mg.                                                            | Vitamin-C.                                   |
| Cal. Pantothenate=5 mg.                                                        |                                              |
| Niacinamide=100 mg.                                                            |                                              |
| Folic Acid=1.5 mg.                                                             |                                              |
| Vit. c=150 mg.                                                                 | Ascorbic Acid                                |
| Tab. Vitamin C—50 mg.                                                          |                                              |
| 100 mg. and 500 mg.                                                            |                                              |
| Tab. Sulphadimidine—500 mg.                                                    | Sulphadimidine (synonym)<br>—Sulphamethazine |
| Tab. Metronidazole—200 mg.                                                     | Metronidazole                                |
| Tab. Hydrochlorthiazide—25 mg.                                                 | Hydrochlorthiazide.                          |
| 50 mg.                                                                         |                                              |
| Tab. Reserpine—0.25 mg.                                                        | Reserpine.                                   |
| Tab. Glyceryl trinitrate 0.5 mg.                                               | Glyceryl trinitrate.                         |
| Tab. Analgin 500 mg.                                                           | Analgin                                      |
| Tab. Antacid                                                                   | Al. Hydroxide,                               |
| Dried Al. Hydroxide—120 mg.                                                    | Mag. Trisilicate, Pepper-                    |
| gel.                                                                           | mint Oil.                                    |
| Peppermint Oil=0.003 ml.                                                       |                                              |
| Mg. Trisilicate=250 mg.                                                        |                                              |
| Tab. Piperazine Citrate 300 mg.                                                | Piperazine Citrate.                          |

| Name of the Product;                                                                                                   | Bulk Drug involved:                                     | Name of the Product                                                   | Bulk Drug involved                                                                          |
|------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Cap. Tetrachloroethylene 1 cap. contain 1 ml. of the drug.                                                             | Tetrachloroethylene.                                    | 20 mg./ml. of Frusemide/2ml. of water.                                | Frusemide                                                                                   |
| Tab. Tolbutamide 500 mg.                                                                                               | Tolbutamide                                             | Inj. Morphine Sulphate 10 mg./ml.                                     | Morphine Sulphate                                                                           |
| Tab. Thiacetazone (50 mg.) and Isoniazid (100 mg.)                                                                     | Thiacetazone and INH                                    | Inj. Pethidine Hydrochloride 50 mg./ml.                               | Pethidine Hydrochlorid                                                                      |
| PAS/Sodium PAS/ Granules Tablets—500 mg.                                                                               | Para-amino Salicylic Acid/Sodium para-amino Salicylate. | Inj. Paraldehyde                                                      | Paraldehyde                                                                                 |
| Granules contain 80 per cent of PAS/Sod. PAS                                                                           |                                                         | Inj. Prednisolone Sodium Phosphate 20 mg./ml.                         | Prednisolone Sodium P                                                                       |
| Tab. INH 100 mg. tab.                                                                                                  |                                                         | Inj. Tetanus Antitoxin 1500 I.U.; 10,000 I.U., 50,000 I.U.            | Tetanus Antitoxin                                                                           |
| Tab. Dapsone 100 mg. tab.                                                                                              | Isonicotinic Hydrazide.                                 | Inj. Methyl Ergometrine Maleate 0.2 mg./ml.                           | Methyl Ergometrine M                                                                        |
| Tab. Chloroquine Phosphate 250 mg.                                                                                     | Dapsone                                                 | Inj. Chlorphoniramide Maleate 10 mg./ml.                              | Chlorphoniramine M                                                                          |
| Tab. Primaquine phosphate 2.5 mg. of base and 7.5 mg. of base.                                                         | Chloroquine Phosphate.                                  | Inj. Aminophylline 250 mg./10 ml ampoule                              | Aminophylline                                                                               |
| Tab. Diethyl carbamazine citrate—50 mg. tab                                                                            | Primaquine Phosphate.                                   | Inj. Oxytocin 6 units/ml.                                             | Oxytocin                                                                                    |
| Tab. Anti-asthmatic:                                                                                                   | Diethylcarbamazine Citrate                              | Inj. Chlorpromazine Hcl. 25 mg./ml.                                   | Chlorpromazine Hcl.                                                                         |
| Ephedrine Hcl—10 mg.                                                                                                   | Ephedrine Hcl. Phenobarbitone.                          | Antivenom Serum (Polyvalent Crotaline Antivenine)                     |                                                                                             |
| Phenobarbitone—7.5 mg.                                                                                                 | Theophylline.                                           | Rehydration Fluid Dextrose in Sod. Chloride injection 25 per cent W/V | Dextrose and Sod.Chlor                                                                      |
| Theophylline—125 mg.                                                                                                   |                                                         | Injection Glucose Containing 5 per cent W/V                           | Glucose                                                                                     |
| Tab. Alkaloids of Ergot: 150 mg.                                                                                       | Prepared Ergot                                          | Water for Injection                                                   |                                                                                             |
| Tab. of Vitamin A 6000 I.U. and Vitamin D(1000 I.U.)                                                                   | Vitamin A and Vitamin D                                 | Inj. Phenobarbitone 200 mg./ml.                                       | Phenobarbitone Sodium                                                                       |
| Tab. Vitamin A 50,000 I.U.                                                                                             | Vitamin A                                               | Inj. Mephonteramine Sulphate 15 mg./ml.                               | Mephonteramine Sulph                                                                        |
| Tab. Vitamin D 50,000 I.U.                                                                                             | Vitamin D (Calciferol)                                  | Diphtheria-Pertussis-Tetanus Vaccine I.P.                             | Diphtheria Toxoid, Tetar                                                                    |
| Tab. Milk of Magnesia 300 mg.                                                                                          | Magnesium Hydroxide                                     | Inj. Tetanus Toxoid I.P.                                              | Toxoid, Pertussis-vacc                                                                      |
| Tab. Paracetamol 500 mg.                                                                                               | Paracetamol                                             | Inj. Diphtheria Toxoid I.P.                                           | Tetanus Toxoid                                                                              |
| Tab. Quinine Sulphate 0.3 g.                                                                                           | Quinine Bisulphate                                      | Inj. Diphtheria Antitoxin 10,000, 20,000 Units                        | Diphtheria Toxoid                                                                           |
| Tab. Phthalyl Sulphathiazole—500 mg.                                                                                   | Phthalyl Sulphathiazole.                                | Oral Polio Vaccine                                                    | Diphtheria Antitoxin                                                                        |
| <b>Oral Contraceptives</b>                                                                                             |                                                         |                                                                       | Aqueous suspension stable live-attenuated strain of poliomyelitis virus type-I, II and III. |
| (a) Ethynodiol Diacetate—1 mg; Ethinyl Oestradiol—0.05 mg.                                                             | Ethynodiol Diacetate, Ethinyl Oestradiol, Norgestrol.   | Inj. Insulin 20, 40 or 80 units/ml.                                   | Insulin                                                                                     |
| (b) Norgestrol—0.25 mg. Ethinyl Oestradiol—0.05 mg.                                                                    |                                                         | Inj. Thiopentone Sodium 500 mg./1 gm.                                 | Thiopenthal                                                                                 |
| <b>Injections</b>                                                                                                      |                                                         | Inj. Succinyl Choline Chloride 50 mg./ml.                             | Succinyl Choline Chloride                                                                   |
| <b>Penicillin</b>                                                                                                      |                                                         | Inj. Lignocaine 0.5 per cent, 1 per cent and 2 per cent.              | Lignocaine Hydrochloride                                                                    |
| (a) Benzyl Penicillin Injection =500,000 units                                                                         | Penicillin G                                            | Inj. Vitamin B-complex N. F.I. Each ml:                               |                                                                                             |
| (b) Procaine Benzyl Penicillin Injection=250,000 units/ml.                                                             |                                                         | Vit. B1=10 mg.                                                        |                                                                                             |
| (c) Fortified Benzyl Penicillin Injection—Procaine Benzyl Penicillin—300,000 units+ Benzyl Penicillin 100,000 units/ml |                                                         | Vit. B2=2 mg.                                                         |                                                                                             |
| Injection Streptomycin Sulphate 1 gm.                                                                                  | Streptomycin                                            | Vit. B6=2 mg.                                                         |                                                                                             |
| Inj. Emetine Hydrochloride—60 mg. of Emetine Hydrochloride/ml.                                                         | Emetine Hcl.                                            | Niacinamide=2 mg.                                                     | B1, B2, B6. Niacinamide, Cal. Pantothenate, B12                                             |
| Inj. Atropine Sulphate 0.5 mg./ml.                                                                                     | Atropine Sulphate                                       | Vit. B12=10 mg.                                                       |                                                                                             |
| Inj. Adrenaline Tartrate/Maleate Contains equivalent of Adrenaline 1 in 1000                                           | Adrenaline Tartrate Adrenaline Maleate                  | Panthenol=2 mg.                                                       |                                                                                             |
| Inj. Nor-Adrenaline Acid, Tartrate 1 mg./ml                                                                            | Nor Adrenaline Acid—Tartrate                            | Inj. Thiamine Hydrochloride 25 mg./ml.                                | Vit. B1 (Thiamine Hydrochloride)                                                            |
| Inj. Dextrose Saline =5 per cent w/v =10 per cent w/v =25 per cent w/v =50 per w/v                                     | Dextrose                                                | Inj. Cyanocobalamin 100 mcg and 500 mcg/ml.                           | Cyanocobalamin                                                                              |
| Inj. Frusemide                                                                                                         | Frusemide                                               | Typhoid-paratyphoid A and B Vaccine I.P.                              |                                                                                             |
|                                                                                                                        |                                                         | Cholera Vaccine                                                       |                                                                                             |
|                                                                                                                        |                                                         | Each ml. contains not less than 8,000 million of Vibrio Cholerae.     |                                                                                             |
|                                                                                                                        |                                                         | Small Pox Vaccine (Freeze dried) (Vaccine Lymph)                      |                                                                                             |

| Name of the Product                                                                                                     | Bulk drug involved            | Name of the Product                               | Bulk drug involved            |
|-------------------------------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------------|-------------------------------|
| <b>Miscellaneous</b>                                                                                                    |                               | <b>Epsom Salts</b>                                | <b>Magnesium Sulphate.</b>    |
| Alphacetamide Eye drops 10 per cent, 20 per cent, 30 per cent.                                                          | Sulphacetamide Sodium         | Health Salts                                      |                               |
| Homatropine Eye drops:                                                                                                  | Homatropine Hydrobromide.     | Sod. Chloride—10 per cent                         | Sod. Chloride, Sod. Sulphate  |
| Homatropine Hydrobromide 0.1 G Sodium Chloride 28.0 mg. Solution for Eye drops. 5.0 ml.                                 |                               | Sod. Sulphate—2 per cent                          | Pot. Chloride, Pot. Sulphate. |
| Esserine Sulfate Eye drops                                                                                              | Physostigmine Salicylate.     | Pot. Chloride—1 per cent                          | Citric Acid, Pot. Iodide.     |
| Physostigmine Salicylate 25.0 mg. Sodium Chloride 40.0 mg. Sodium Metabisulphite 2.0 mg. Solution for Eye-Drops 5.0 ml. |                               | Citric Acid—1.5 per cent                          | Mag. Sulphate                 |
| Benzyl Benzoate Emulsion 25 per cent                                                                                    | Benzyl Benzoate.              | Pot. Iodide—0.001 per cent                        |                               |
| Acid Carbolic Lotion (25 per cent)                                                                                      | Phenol.                       | Mag. Sulphate to—100 per cent                     |                               |
| Lysol :                                                                                                                 | Cresol                        | Iodine Ointment:                                  | Iodine                        |
| 50 per cent Cresol V/V in a Saponaceous Solvent.                                                                        |                               | Methyl Salicylate—5 per cent                      | Methyl Salicylate             |
| Tr. Iodine Solution (Aqueous)                                                                                           |                               | Iodine—5 per cent                                 |                               |
| Iodine—1.25 g. Potassium Iodide—2.5 g.                                                                                  |                               | Sprain Ointment:                                  |                               |
| Tincture Iodine.                                                                                                        | Iodine.                       | Methyl Salicylate                                 |                               |
| Iodine—2.5 g. Potassium Iodide—1.5 g. Purified Water—2.5 ml. Alcohol—2.5 ml.                                            |                               | Ointment:                                         |                               |
| Tr. Benzoin.                                                                                                            | Benzoin                       | Methyl Salicylate—500 per cent g.                 | Methyl Salicylate.            |
| Benzoin Crushed—100g. Alcohol—90 per cent upto 1000 ml.                                                                 |                               | White Beeswax—200 g.                              | White Bees wax.               |
| Syrup Piperazine (500 mg. of Piperazine Citrate/5 ml.)                                                                  | Piperazine Citrate.           | Wool Fat—105 g.                                   | Wool Fat, Menthol,            |
| Extract Belladonna I.P.                                                                                                 | Belladonna Root Powder        | Menthol—100 g.                                    | Cajuput Oil                   |
| Chloramphenicol Suspension 125 mg./5 ml.                                                                                | Chloramphenicol Palmitate     | Water—45 g.                                       | Eucalyptol.                   |
| Syrup Paracetamol 125 mg/5 ml.                                                                                          | Paracetamol.                  | Cajuput Oil—25 g.                                 |                               |
| Tetracycline Hydrochloride Eye Ointment 1 per cent W/W Tetracycline.                                                    | Tetracycline Hydrochloride    | Eucalyptol—25 g.                                  |                               |
| Gripe mixture.                                                                                                          |                               | Cough Syrup                                       |                               |
| Oil Anethi—0.0016 ml.                                                                                                   | Oil Anethi, Oil Anisi,        | Ammoniated Mercury Ointment                       | Ammoniated Mercury,           |
| Oil Anisi—0.0016 ml.                                                                                                    | Oil Caraway, Sod. Dicar-      | Ammoniated Mercury—5 g.                           |                               |
| Oil Caraway—0.0062 ml.                                                                                                  | bonate 90 per cent Al-        | Liquid Paraffin—3 g.                              | Liquid Paraffin—              |
| Sod. Bicarbonate—290 mg.                                                                                                | cohol, Distilled Water.       | White Ointment—92 g.                              | —White.                       |
| Alcohol 90 per cent—3 ml.                                                                                               |                               | Pain Balm.                                        |                               |
| Distilled Water—30 ml.                                                                                                  |                               | Clove Oil 1 per cent                              |                               |
| Noscapine Linctus B.P.C. 15 mg./5 ml.                                                                                   | Noscapine.                    | Oil of Eucalyptus 8 per cent                      |                               |
| Whitfields Ointment                                                                                                     |                               | Camphor 5 per cent, Menthol 3 per cent            |                               |
| Benzoic Acid—60 per cent                                                                                                | Benzoic Acid                  | Thymol 2 per cent, Menthyl Salicylate 6 per cent. |                               |
| Salicylic Acid—3 per cent                                                                                               | Salicylic acid.               |                                                   |                               |
| Nitrofurazone Ointment                                                                                                  | Nitrofurazone                 |                                                   |                               |
| Nitrofurazone—0.5 per cent                                                                                              |                               |                                                   |                               |
| Petroleum Jelly                                                                                                         |                               |                                                   |                               |
| Potassium Permanganate Solution:—(0.1 per cent)                                                                         | Potassium Permanganate        |                                                   |                               |
| Anaesthetic Ether.                                                                                                      |                               |                                                   |                               |
| Cetrimide Lotion (1 per cent)                                                                                           | Cetrimide                     |                                                   |                               |
| Plaster of Paris Bandage                                                                                                | Calcium Sulphate, hemihydrate |                                                   |                               |
|                                                                                                                         | Zinc Oxide                    |                                                   |                               |
| Adhesive Plaster                                                                                                        | Ethylchloride.                |                                                   |                               |
| Methyl Chloride Spray                                                                                                   | Boric Acid. Glycerine         |                                                   |                               |
| Propylglycerine Eye-Drops (2 per cent)                                                                                  |                               |                                                   |                               |
| Leaching Powder                                                                                                         | Calciumhypochlorite           |                                                   |                               |
| Benly                                                                                                                   | Cresol, Caustic Soda.         |                                                   |                               |

#### Household Remedies

Tablet Iodochlorhydroxy Quinoline—250mg.; Tablet Ferrous Sulphate—200 mg.; Tablet Aspirin 300mg.; Hexa Vitamin Capsules and Tablets:—(Each tablet or Capsule contains).—Vit. A—5000 I.U., Vit. D—400 I.U., Vit. B1—2 mg., Vit. B2—3 mg., Nicotinamide—20 mg., Vit. C—75 mg.; Tablet Vitamin B-Complex, Prophylactic N.F.I.: (Vit. B1—2 mg., Vit. B2—2 mg., Vit. B6—0.5 mg., Nicotinamide—25 mg., Calcium Pantothenate—1 mg., Yeast—100 mg.)

Tab. Vitamin B-complex with Folic Acid and Vitamin C, therapeutic N.F.I.; For therapeutic use:—

Vitamin B-1—10 mg., Vitamin B2—10 mg., Vitamin B6—2.5 mg.; Cal. Pantothenate—5 mg., Nicotinamide—100 mg., Folic Acid—1.5 mg., Vit. C—150 mg.; Tab. Vitamin C—50 mg., 100 mg. and 500 mg.;

Tab. Antacid Dried Al. Hydroxide—120 mg.; gel. Peppermintoil—0.0003 ml.; Mg. Trisilicate—250 mg.; Tabl. Milk of Magnesia—300 mg.; Tab. Quinine Sulphate—0.3 mg.; Sulphacetamide Eye Drops 10 per cent, 20 per cent, 30 per cent; Benzyl Benzoate Emulsion 25 per cent.; Acid Carbolic Lotion (25 per cent).

Lysol:—50 per cent (Cresol V/V in a Saponaceous Solvent.; Tr. Iodine solution (Aqueous) Iodine—2.25 g., Potassium Iodide—2.5 g.; Tincture Iodine.—Iodine—2.5 g., Potassium Iodide—1.5 g., Purified Water—2.5 mg., Alcohol—90 per cent up to 25ml.; Tr. Benzoin.: Benzoin Crushed—100 g., Alcohol—90 per cent, up to—250 ml.; Gripe mixture.: Oil Anethi—0.0016 ml., Oil Anisi—0.0016 ml., Oil Caraway—0.0062 ml., Sod. Bicarbonate—290 mg., Alcohol 90 per cent—3 ml., Distilled Water—30 ml.; Noscapine Linctus B.P.C. 15 mg./5 ml.; Whitfields Ointment.; Ben-

zoic Acid—60%; Salicylic Acid—3%; Nitrofurazane ointment Nitrofurazone—0.5%; Potassium Permanganate Solution—(0.1 per cent); Cetrimide Lotion (1%). Adhesive Plaster.: Boroglycerine Eye-Drops (1 per cent); Bleaching Powder.: Phenyl.; Epsom Salts.; Health Salts; Sod. Chloride—10 per cent, Sod. Sulphate—2 per cent, Pot. Chloride—1 per cent, Pot. Sulphate—5.5 per cent, Citric Acid—1.5 per cent, Pot. Iodide—0.001 per cent, Mag. Sulphate to—100 per cent;

#### Annexure B

##### Generic Names

All single ingredient dosage forms of the following drugs should be marketed under generic names.

Chloramphenicol and its esters such as palmitate, monostearoy glycolate, succinate and stearate.; Tetracycline, Oxytetracycline, Chlorotetracycline, Demethylchlor tetracyclines, 5 Dioxy Oxytetracycline; Ferrous Sulphate; Aspirin (Acetyl Salicylic acid); Chlorpromazine; Reserpine; Tolbutamide; Analgin; Piperazine and all its salts such as adipate, citrate and phosphate.; Crystalline Penicillin G such as Procaine, long acting benzathine penicillin, including semisynthetic penicillins.; Streptomycin; INH; Combination of INH-Thiambutone.

#### Annexure C

##### Constitution of the Committee on the Drugs and Pharmaceuticals Industry

In the context of the large-scale expansion of the drugs and pharmaceuticals industry envisaged during the fifth five year Plan, with a view to ensuring the regulated and rapid growth to drug manufacture, and further with a view to ensuring that all essential drugs are made available to the consumers at reasonable prices, government have decided to constitute a Committee with following membership;

Mr Jaisukhlal Hathi, M.P.—Chairman; Mr Yashpal

Kapur, M.P.—Member; Mr Vasant Sathe, M.P.—Member; Dr Ranen Sen, M.P.—Member; Mr K.S. Chavda, M.P.—Member; Mr C. M. Stephen, M.P.—Member; Dr M. L. Dhar, Director, Central Drugs Research Institute, Lucknow—Member; Dr B. D. Tilak, Director, National Chemical Laboratory, Poona—Member; Mr S. S. Marathe, Chairman, Bureau of Industrial Costs & Prices—Member; Mr Vinod Kumar, Joint Secretary, Ministry of Petroleum & Chemicals—Member; Mr P.S. Ramachandran, Drugs Controller, DGHS.—Member; Dr B. Shah, Dy. Director General, D.G.T.D.—Member; Dr B. V. Ranga Rao, Centre for Studies in Science Policy, Jawaharlal Nehru University—Member; Mr M. K. Rangnekar, Commissioner, Food and Drug Administration, Government of Maharashtra, Bombay.—Member; Dr P. R. Gupta, Adviser (Drugs), Ministry of Petroleum & Chemicals.—Member Secretary.

##### Coopted by the Committee

Dr B.B. Gaitonde, Director Haffkine Institute, Parel, Bombay Member;—Dr S.S. Gothoskar, Drug Controller (I) DGHS (on the retirement of Mr P.S. Ramachandran) Member;

The Committee will examine and report upon the following matters:

(i) To enquire into the progress made by the industry and the status achieved by it; (ii) To recommend measures necessary for ensuring that the public sector attains a leadership role in the manufacture of basic drugs and formulation and in research and development.; (iii) To make recommendations for promoting the rapid growth of the drugs industry and, particularly, of the Indian and small scale industries' sector. In making its recommendations the Committee will keep in view the need for a balanced regional dispersal of the Industry; (iv) To examine the present arrangements for the flow of new technology into the industry, and make recommendations

therefore; (v) To recommend measures for effective quality control of drugs, and for rendering assistance to small scale units in this regard.; (vi) To examine the measures taken so far to reduce the prices of drugs for the consumer, and to recommend such further measures as may be necessary to rationalise the prices of basic drugs and formulations.; (vii) To recommend measures for providing essential drugs and common household remedies to the general public, especially in the rural areas.; (viii) To recommend institutional and other arrangements to ensure equitable distribution of basic drug and raw materials especially to the Small Scale Sector.

The Committee will ascertain and take into consideration the views of the state governments and other interests concerned, as may be found necessary.

The Committee's headquarters will be at New Delhi.

All secretariat assistance required by the Committee will be provided by the ministry of Petroleum & Chemicals.

The Committee will meet as often as may be considered necessary by the chairman and shall submit its final report to government within six months. The Committee may also, at its discretion, submit interim reports on specific matters from time to time.

#### Annexure D

##### Report of the Panel Constituted by the Committee on Drugs and Pharmaceuticals, Ministry of Petroleum and Chemicals, Government of India

The Panel met on June 8 and 9, 1974, at the Haffkine Institute, Bombay. The following were present: Dr Ranen Sen, Dr A. B. Chowdhury, Dr S. Padmavati, Dr B. Ray Chaudhari, Dr K. V. Thiruvengadam, Mr P.S. Ramachandran, Dr K. G. Nair, Dr B. J. Vakil, Dr P. R. Gupta, Dr B. B. Gaitonde—Convener

Mr M. K. Rangnekar attended by special invitation.

The Committee discussed in detail the following:

- (i) Measures for providing essential drugs and common household remedies, especially in rural areas and
- (ii) Whether it would be in the national interest to substitute brand names by generic names and, if so, in the manner and to the extent to which should be done.

With regard to the first term of reference, it was found that a list of essential drugs, particularly those, which are used extensively in medical practice in both urban and rural areas, will have to be prepared. Accordingly, the lists of essential drugs prepared by the Committee of Essential Drugs, 1967, as well as those prepared by Prof. Padmavati and the Drug Controller (India) were scrutinised and a new list (Appendix I) was prepared. In the opinion of the Committee, the drugs mentioned in the attached list are extensively used and are essential for medical practice. In order to make these essential drugs available at a reasonably low price throughout the country, the Committee recommends the following measures:

- (i) Production of the drugs should be stepped up immediately giving top priority to the manufacture of the relevant basic drugs.
- (ii) The Ministry of Petroleum and Chemicals should take all such measures, which will increase the production of these drugs expeditiously. Special assistance, prior to for power supply, other incentive schemes etc. may be given to entrepreneurs, private

\*The term "generic" denotes "non-proprietary".

ferably Indian, who come forward to undertake production of these essential drugs. In short, if there are any impediments, these should be immediately looked into and removed.

In case of some drugs, the technical know-how is already available, but there is a production short-fall. More enterpreneurs should be encouraged to take to production of such drugs. In case of those drugs for which technical know-how is not available in the country, special incentives may be given to national laboratories to develop the know-how on a time-bound basis. If necessary, the foreign technical know-how may also be obtained immediately.

To make these drugs available in rural areas, the distribution system must be rationalised and decentralised. For this assistance should be sought from the Postal department, Indian Oil Company depots, kerosene depots, Co-operative societies should be encouraged for the distribution of drugs in rural areas. Packaging details should be looked into. Tablets should be supplied in strip packings. Liquid preparations should be supplied in bottles fitted with pilfer proof closures. Export of the basic drugs (Appendix I) as well as their formulations should be so regulated that there is no shortage of essential drugs in the country at any time.

At present, there are a number of difficulties, especially in small towns and rural areas, to establish pharmacies

for dispensing of drugs. One of the major difficulties is non-availability of trained pharmacists. According to the Drug Act, those who possess a Diploma in Pharmacy can only be licensed as dispensers. The diploma course is quite lengthy and the remuneration paid to the dispenser is not attractive. The Panel recommends that steps should be taken to revise the present syllabus of training of the pharmacists. The Pharmacy Council should be approached to tailor the courses to suit the needs of the country. An intensive, need-oriented course of a short duration should be instituted for training of dispensers, who then could be licensed to establish pharmacies and drug stores in smaller towns and rural areas. Primary Health Centres should be given adequate financial assistance for purchase of drugs, so that rural population gets the same quality of drugs in adequate amounts as in urban areas.

#### Substitution of Brand Names of Drugs by Generic Names

The question of generic names and brand names was extensively discussed. All facets of the problem, such as impact on drug prices, bio-availability, quality of drugs, enforcement of drug control, multiple ingredient preparations, export of drugs, labelling difficulties, impact on small-scale industry, patent rights distribution system, acceptance by the medical profession, role of distributors and pharmacists, effect on the growth of pharmaceutical industry, difficulties and inconvenience in the use of tongue-twisting generic names etc., were discussed in detail. After taking into account all

these very intricate problems, the Panel makes the following recommendations:

(a) Brand names should be abolished in a phased manner. This step is in the right direction both for rational practice of medicine and general national interest. Drugs which are exported may be allowed to bear brand names.

(b) A beginning should be made for a change over to generic names for the drugs, mentioned in Appendix II. These drugs are used very extensively and their generic names are as elegant as brand names. These drugs should, therefore, not be allowed to be marketed under brand names with immediate effect.

(c) This change over from brand names to generic names may result in the increase of spurious and sub-standard drugs. It is, therefore, strongly recommended that steps should be taken to ensure more rigid and uniform quality control through the country.

(d) All supplies of single ingredient drugs and drugs included in Indian Pharmacopoeia for central and state government Institutions and local Bodies should be tendered and supplies made under generic names. At present, drugs, though tendered under generic names, are supplied under brand names, and this should be discouraged.

(e) All drugs other than those listed in Appendix II, should bear labels displaying prominently generic names. Brand names may be mentioned in brackets.

(f) The Drug Controller (India) be requested not to give recognition to the brand names of new drugs when first introduced in this country.

(g) Multiple drug combinations of ten containing drugs, particularly vitamins, in amounts far in excess of what is required are presently marketed in India. The majority of such combinations are irrational. There is a colossal national wastage of drugs because of such combinations. The Panel, therefore, strongly recommends that the Drug

Control Administration should immediately go into the various drug combinations and take prompt measures to eliminate irrational drug combinations. No firm should be allowed to import excessive quantities of any drug over and above what is required to go into the formulations for therapeutic and prophylactic purposes.

(h) The Indian Pharmacopoeia Committee be approached to devise simple short and suitable non-proprietary names for drugs, which have got long and difficult generic names.

(i) Bio-availability studies are important in cases of a few drugs, although this factor has recently been overplayed not always on rational basis. The Panel recommends that facilities should be created in different parts of the country, so that the industry, both large and small-scale, can take advantage of such facilities to plan and conduct bio-availability and pharmacokinetic studies.

(j) In order to keep the medical profession, particularly the general practitioners, well-informed about new drugs and also to popularise the generic names, it is essential to take steps immediately to :

- (i) revise the Indian National Formulary,
- (ii) to publish journals on the lines of the Prescriber's Journals, UK, Medical Letter, USA or Formulary Notes of Sri Lanka.

Such applications will have to be under the control of an editorial board comprising leaders of the medical profession in the country constituted by the ministry of Health, government of India.

#### Appendix I

##### Tablets and Capsules (Granules included)

##### Tablets

Cap. Chloramphenicol 250 mg.; Cap. Tetracycline Hydrochloride 250 mg.; Tab. Indochlorhydroxy Quinoline 0.5 mg.; Tab. Nitrofurantoin; Tab. Chlorpheniramine; Tab. Ferrous Sulphate; Tab. Folic



Acid; Tab. Digoxine; Tab. Aspirin; Tab. Phenobarbitone; Tab. Chlorpromazine; Tab. Prednisolone; Tab. Hexa Vitamin (N.F.I.); Tab. Vitamin B. Complex; Tab. Vitamin C; Tab. Sulphadimidine; Tab. Metronidazole; Tab. Hydrochlorothiazide; Tab. Reserpine; Tab. Glyceryltrinitrate; Tab. Analgin; Tab. Antacid (B.N.F.); Tab. Piperazine (Syrup Piperazine); Tab. Tetrachlorethylene; Tab. Tolbutamide; Tab. Thiacetazone & Isoniazid (each tablet to contain Thiacetazone 37.5 mg. BPC & Isoniazid 75 mg IP); PAS granules; Tab. I.M.H.; Tab. Dapsone (50 mg); Tab. Chloroquine Sulphate 0.2 g (or Tab. Chloroquine Phosphate 0.25 g I.P.); Tab. Primaquine Diphosphate (2.5 g of Primaquine base); Tab. Diethylcarbamazine Citrate (50 mg); Tab. Anti-asthmatic (containing Ephedrine HCl. 50 mg, Theophyllin 65 mg and Phenobarbitone 30 mg); Tablets containing alkaloids of Ergot equivalent to 0.4 mg of total alkaloids Ergotoxin; Capsules of Vitamin A 6000 units and Calciferol 1000 units; Tab. Vitamin A; Tab. Vitamin D; Tab. Milk of Magnesia; Oral Contraceptive (approved by Family Planning Department).

#### Injectons

Injection Penicillin; Inj. Streptomycin; Inj. Emetine Hydrochloride; Inj. Atropine; Inj. Adrenaline; Inj. Nor-Adrenaline; Inj. Dextrose Saline; Inj. Furosemide; Inj. Morphine Sulphate; Inj. Pethidine; Inj. Paraldehyde; Inj. Prednisolone; Inj. Anti-Tetanus Serum; Inj. Methyl Ergometrin; Inj. Chlorpheniramine Maleate; Inj. Fortified Benzyl Penicillin PP (Procaine Benzyl Penicillin 300,000 Units, Benzyl Penicillin 100,000 units); Inj. Aminophylline (0.5 gm/2 ml); Inj. Oxytocin (Oxytocin 5 i.u./ml); Inj. Chlorpromazine; Antivenom Serum (Polyvalent); Rehydration fluid (for treatment of Cholera cases); Glucose Ampoule (containing Dextrose 25 per cent); Distilled Water (25 cc ampoule); Inj. Phenobarbitone Sodium (200 mg/ml); Inj.

Mephenteramine; Diphtheria-Pertussis-Tetanus Vaccine; Inj. Tetanus Toxoid; Inj. Diphtheria Toxoid; Inj. Anti-Diphtheria Serum; Oral Polio Vaccine; Inj. Insulin plain (40 units per ml); Inj. Sodium Pentathol; Inj. Succinyl Choline; Inj. Xylocaine.

Miscellaneous (syrups, ointments, mixtures, eye drops, ear drops etc.)

Sulphacetamide Eye drops; Homatropine Eye Drops; Esserine Sulfate eye drops; Benzyl Benzoate Emulsion; Acid Carbollic; Lysol; Tr. Iodine; Syrup Piperazine; Ext. Belladonna (Combination of Phenobarb & Belladonna); Chloramphenicol suspension (125 mg/ml); Syrup Paracetamol (125 mg in 5 ml); Tetracycline Hydrochloride Ointment 1 per cent in sterile ointment base; Gripe Mixture for infants (5ml contains Dill oil

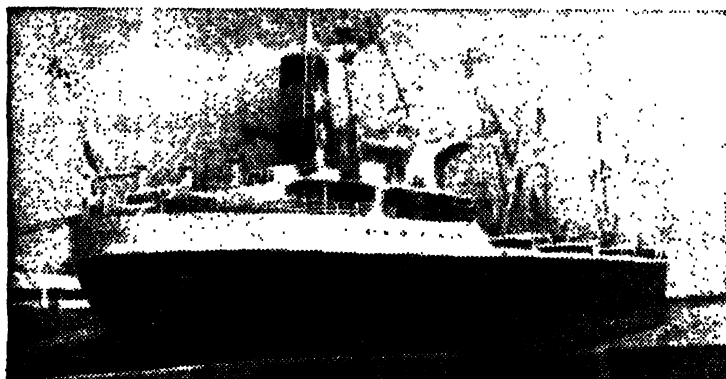
B.P.C. 0.005 ml; sodium Bicarbonate I.P. 0.005 g.; dehydrated Alcohol I.P. 0.0248 ml (Syrup & Preservative); Syrup Noscipine; Whitfield's Ointment (Benzoic Acid 6 g; Salicylic acid 32 g; Alcohol 70 per cent up to 100 g.); Nitrofurazone ointment (0.2 per cent in non-greasy ointment base); Petroleum Jelly; Potassium Permanganate—5 g packets; Diethyl Ether (Anaesthetic); Cetrimide Lotion; Iodine Solution (Chaudium Solution) for sterilizing raw catgut, loops and loop introducers (Iodine 1 g, Pot. Iodide 1.5 g, Distilled Water to produce 100 ml); Plaster of Paris Bandages; Adhesive Plaster; Ethyl Chloride (100 ml spray); Boric Acid-Alcohol-Glycerol drops (Boric Acid 1.5 per cent; Glycerol 3.3 per cent in Alcohol 95 per cent 10 ml). Bleaching Powder; Phenyl; Epsom Salt; Krusen's Salt

(Each gram contains Sodium Sulphate Exsic 20 mg., Sodium Chloride 10 mg., Pot. Chloride 10 mg., Pot. Sulphate 55 mg., Citric Acid 45 mg., Magnesium Sulphate exsic); Ointment containing: Resublimed Iodine 4 per cent; Methyl Salicylate 5 per cent; Ointment containing: Oil Eucalyptus 1 per cent, Oil clove 1 per cent, Camphor 5 per cent, Menthol 3 per cent, Thymol 2 per cent, Methyl Salicylate 5 per cent.

#### Appendix II

All Dosage Forms of all Drugs to be Marketed under Generic Names.

Chloramphenicol; Tetracycline; Ferrous Sulphate; Aspirin; Chlorpromazine; Reserpine; Tolbutamide; Analgin; Piperazine; Crystalline Penicillin G; Streptomycin; INH Tablets; Tablets INH Thiacetazone.



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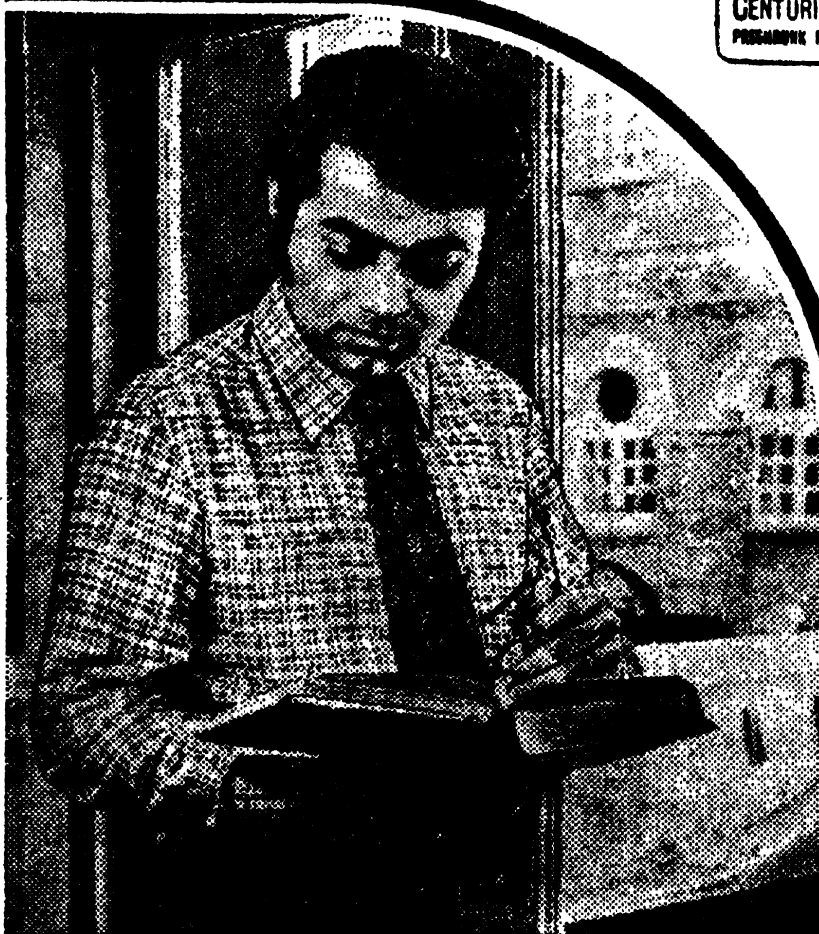
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